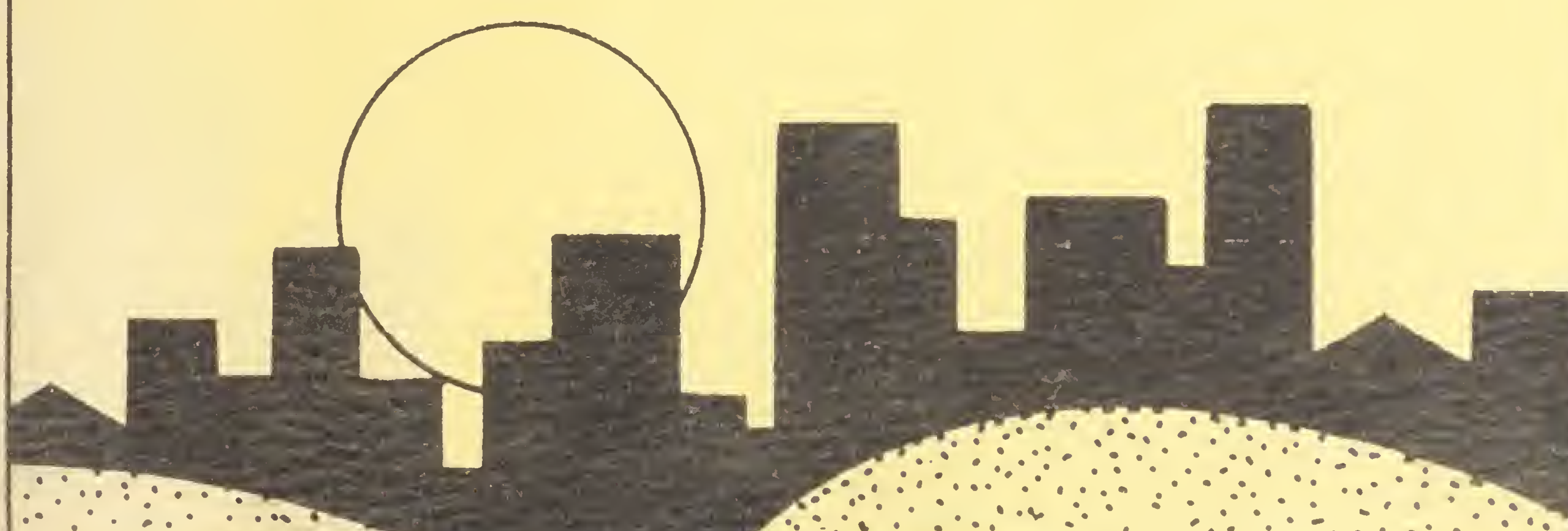
The End Of Public Housing?

a discussion forum organised by the Urban Research Program held on 25 October 1996

Editor: Rita Coles
Urban Research Program
February 1997



Research School of Social Sciences
Australian National University

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URBAN RESEARCH PROGRAM

The Urban Research Program is a part of the reorganised Division of Politics and Economics in the Research School of Social Sciences, which came into being in early 1990. Like its precursor, the Urban Research Unit, which was established in 1966, it carries out studies in the social sciences on Australian cities. Work undertaken in the Program is multidisciplinary and ranges widely over economic, geographic, historical, sociological, and political aspects of urban and regional structure and development, as well as more general areas of public policy.

The Urban Research Program focuses on issues of fundamental importance in the development and functioning of Australia's cities. This focus arises out of a determination to carry out policy-oriented empirical research and to develop theory which is grounded in the economic and social realities of a particular society. This focus is also an expression of the University's commitment to explore issues of national importance and to contribute to the national debate on them.

Since 1992 the URP has administered, under a committee drawn from leading Australian academics in the field, a Federated PhD Scheme designed to improve the quality and quantity of doctoral training relating to urban issues. Each year the program has brought together PhD scholars and supervisors from eighteen Australian universities.

The URP also organises workshops each year on urban topics attended by scholars from across Australia. Its members serve on advisory committees at a national and state level. The URP publishes a Newsletter and a refereed Working Papers series both of which are widely used in teaching and research. It initiated and supports an international electronic urban research list which has subscribers in North America, Europe and Australia.

The URP is committed both to producing books and articles of the highest academic quality and to influencing government policy and public debate by providing direct advice to government, organising seminars, conferences and exhibitions, delivering lectures, and contributing to more popular journals and magazines, the daily press, radio and TV.

Preface

On the 25th of October 1996 the Urban Research Program hosted a public discussion forum entitled, *The End of Public Housing?* The half-day forum was held at The Australian National University and involved presentations from four speakers, a response from an invited discussant, and a concluding panel discussion which gave the audience a chance to engage the presenters with questions, comments and debate. The papers in this volume record the presentations by the speakers and the discussant.

The forum was held in response to a set of housing 'reforms' that had been proposed in 1996 by the Commonwealth Government through the Council of Australian Governments (COAG). The reforms centred upon a proposed shift away from direct Commonwealth funding to States for public housing provision to an expanded system of federal income supplements for low income renters. Although forwarded in 1996 by the new Liberal Government, these reforms had originally been formulated and promoted by the previous Labour administration. Thus, the Commonwealth was able to put the argument before COAG and the Australian community that its proposed changes to public housing enjoyed bi-partisan political support. Indeed, the former Labour Minister with responsibility for housing, Mr Brian Howe, was vocal in his support during 1996 for the changes put to COAG.

Whilst the reforms to Commonwealth housing policy had the support of both major political parties, it was increasingly evident during 1996 that many people and groups in the Australian community were deeply concerned by the proposed changes. In particular, many housing advocacy organisations and public tenants' bodies expressed alarm at the potential impacts of the proposals on the public accommodation sector and people in housing poverty. Community concerns centred on the potential for this dramatic policy shift to worsen the socio-economic circumstances of public housing tenants, whilst failing to address adequately the many problems facing low income households in the private rental sector. Noticeable during this rising chorus of community concern in 1996 was the lack of any academic contribution to the public appraisals of the reform proposals. In particular, Australian housing policy analysts were conspicuous in their absence from these debates.

It was in this context that the Urban Research Program decided to organise a public discussion forum on the reform proposals. The forum emerged in

response to a challenge to Urban Research Program members from Professor Max Neutze for a renewed effort on contemporary policy analysis and comment in an era of rapid social change for Australian cities. It was quickly decided that the housing reforms represented both a potential source of radical change for Australian cities and an appropriate focus of enquiry for the Program, given its long interest in housing issues. The discussion forum was intended both as a starting point for this renewed emphasis on contemporary housing policy, and as an academic contribution to public debates surrounding the reform proposals.

Program members were concerned about the reforms, given the similarity of the proposals to radical policy changes overseas, notably in New Zealand, whose outcomes have included greater social stratification, heightened spatial polarisation between 'tenure' classes, and, ultimately, less efficiency in the delivery of housing to the needy. Program members were particularly concerned that the recent New Zealand policy experience of housing reform had been cited by the Commonwealth in support of its own similar proposals. This was seen as a 'glossy overview', of the reality of the New Zealand case, where a series of profound changes to public housing provision during the 1990s has caused demonstrable hardship for many. A New Zealand housing policy expert was therefore invited to the discussion forum so that the Australian community might obtain a fuller appreciation of the potential social and spatial effects of the proposed Commonwealth reforms. It was also decided that the forum would provide an opportunity for a range of other community and institutional views to be heard.

The speakers brought a considerable breadth of knowledge of public housing issues to the forum. Dr Lawrence Murphy (Geography, University of Auckland) and Professor Pat Troy (Urban Research Program, ANU) drew on their extensive knowledges of academic research on public housing issues in a range of countries, including the United Kingdom, New Zealand and Australia. Ms. Eleri Morgan-Thomas (National Shelter) and Mr Adam Farrar (National Community Housing Forum) brought their considerable first-hand experience of working in the community housing sector to the forum. Mr Max Parker (formerly of the Industry Commission) was able to reflect on his work with the Commonwealth's Industry Commission in its key 1993 inquiry into public housing.

Although judged a success, the forum was inevitably limited in its public reach. Many requests for printed copies of presentations were received

immediately following the forum from both participants and those who were unable to attend.

In the months that have elapsed since the forum, the community housing sector has continued to express its opposition to the proposed Commonwealth reforms. The reform process was unexpectedly postponed in late 1996 when COAG was prevented from meeting by a state election (Western Australia) held at short notice. Little has been heard in recent months from either the Commonwealth or COAG concerning the reforms.

At the time of writing (February, 1997) there is great uncertainty and anxiety over the proposed reforms in many sections of the community. Although it has been reported that the Commonwealth has decided to drop the proposals, there has been no official confirmation of this. The one clear initiative to emerge recently was the announcement of an impending Senate Inquiry into public housing assistance. There is in Australia a palpable climate of uncertainty, and for some, fear, concerning the future of public housing. It is our hope that the papers in this volume will make some modest contribution to the urgent task of clarifying the evidence of past policy reforms in Australia and overseas, thereby helping the community and governments to propose policies which meet the claims of truth and fairness.

The views expressed in these papers are those of the authors and not the Urban Research Program.

Brendan Gleeson
Forum Convenor and Chairperson

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Introductory Remarks to the Forum: The End of Public Housing? 25 October 1996

Patrick Troy*

Before 1940 all States had various forms of government programs designed to supply housing for lower income households funded from their own resources. Following the War and the Commonwealth Housing Commission (CHC) report of 1944 the Commonwealth Government initiated a program jointly with the States to increase the supply of public housing. This was the Commonwealth State Housing Agreement (CSHA).

The program was designed to overcome the shortages induced by the decline in construction during the 1930s and the War. It was also designed to clear the cities of poor quality housing or 'slums' and to raise the quality of housing generally and for low income households in particular. The early Agreements with the States were to produce 'public housing', entry to which low income households would be given preferential access.

The CSHA programs were also designed to create communities. As a consequence there were few pressures on people to vacate public housing even when their circumstances improved. Indeed, the ambition of the authors of the CHC Report was to provide choice for those who did not want to own their own dwelling - the owner occupation level was already at 50 percent. The Menzies government elected in 1949 pursued a policy of encouraging owner occupation and succeeded in lifting the level to 70 per cent by 1961.

Although it had reduced the quality of public authority housing, had placed less emphasis on the development of community and had encouraged the sale of public housing, the Commonwealth's commitment to public housing remained basically bi-partisan throughout the 1950s and 1960s. The level of funding was, however, gradually reduced over the period although it was significantly increased under the Whitlam Government in the early to mid 1970s.

By the late 1970s the Commonwealth Government faced budgetary pressures which emboldened the economic rationalists to try to get the Commonwealth out of housing programs or to at least minimise its support for housing programs which they regarded as state responsibilities.

The Commonwealth initially proposed in 1978 that rents for public housing should be set at market levels on the spurious grounds that not all the tenants of public housing were poor and not all the poor lived in public housing. The

* Professor Patrick Troy is Head of the Urban Research Program, Research School of Social Sciences, Australian National University.

ambition was to force the 'better off' tenants out of public housing so that their places could be taken by the poor and in so doing reduce the demand on the Commonwealth for housing funds.

The States opposed the change and managed to negotiate a compromise so that rents were to be set as 'market related rents'.

The effect of this change was nonetheless dramatic. Public housing quickly became welfare housing and the estates became areas of concentrated disadvantage and seggregation – now sadly confirmed by Gregory and Hunter (1996). Virtually all tenants of publicly owned housing now receive some form of social security support.

The Labor Government of 1983 was elected with a promise to double the amount of public authority housing in 10 years but made little progress in achieving the target. Moreover, its low level of commitment to housing generally can be guaged from the fact that it actually abolished the Department of Housing following the 1987 election, splitting up responsibilities among a number of Departments. This was another victory for the economic rationalists.

It was not until 1993 that the Commonwealth again reconstituted a fully fledged Department concerned with housing issues and under which all aspects of housing could be taken into account.

Since 1958 the Commonwealth had paid rent subsidies to selected categories of low income tenants partly out of recognition that the waiting lists for public authority housing were so long that they might have to wait years before being offered a dwelling.

On several occasions rental allowance or subsidy schemes had been investigated as possible alternative ways of providing assistance to low income households. The first was the Housing Allowance Voucher Experiment (HAVE) Scheme which was not proceeded with because the evidence was that it would fail in its objective of increasing the supply of low rental accommodation. It was also concluded that it would be expensive to administer, would increase rents generally, would result in older tenants being uprooted from their communities and would subject low income tenants to a variety of discriminatory practices. Later, the National Housing Strategy concluded that rental subsidy schemes were not the preferred direction for the development of policy.

Unhappy with this conclusion Commonwealth Treasury convinced the Treasurer that a reference should be made to the Industry Commission for it to review Public Housing confidant in the view that the more market oriented body would produce a report more to its liking. In the event the Commission reported that public provision of accommodation could be efficient and indeed lauded the public authority housing programs.

Undeterred by the report and armed with a new determination to cut public expenditure, the New Zealand Government's 'Reforms' in housing provided the

model for new initiatives in Australia. The Keating Government undertook what we might risibly call an 'analysis' to justify an ideological position which it had already taken.

It was argued that:

- tenants of public authority housing received higher levels of subsidy than those in private housing and that this was inequitable;
- many tenants of public authority housing now occupied dwellings which were too big for them or their needs and that they should be moved into housing 'more appropriate to their needs';
- much housing stock was now poorly located in relation to demand;
- much housing authority stock was now poorly located in relation to employment opportunities;
- the housing estates were concentrations of disadvantage;
- the waiting lists were becoming longer and the authorities could not meet the demand;
- the private sector could be relied on to produce more low rent accommodation more efficiently.

The case was disingenuous and led to wilfull misrepresentation.

The argument about the extent of subsidy depended entirely on assumptions made about the value of the housing stock and how it should be treated. Contrary to the way it was presented public tenants did not receive the 'subsidy' in their hand.

The apparent 'over accommodation' of some households was simply the outcome of the ageing of tenants whose families had grown up and/or whose partner had died but they were in neighbourhoods which they were familiar with. Unless they request a move to a smaller dwelling they should be left undisturbed because the dwellings would soon enough become available for re-allocation. This was the inevitable working out of the original commitment to the development of communities.

The extent to which accommodation is now poorly located in relation to demand could be rectified by allowing the authorities more flexibility in how they managed their stock and where they bought, sold or built accommodation. In any event little empirical evidence was presented to support the assertions.

The extent to which public authority housing was poorly located in relation to employment was partly a function of the change in policy in 1978 and partly a function of planning and development failure and could be rectified either by allowing the authorities to sell and buy or build in more appropriate locations and/or by making greater efforts to ensure that better planning led to more jobs being located closer to where the workers were.

The extent to which the estates were concentrations of disadvantage was entirely due to the policies forced on the States by the Commonwealth in 1978 and could be reversed.

The extent to which the waiting lists were too long was a result of the failure of the Government to keep its promise to increase the supply of public authority housing.

In every down side of the property cycle private sector interests claim they can produce housing for low income households if they are given appropriate incentives. No one ever stopped them from building accomodation for the low rent market and there is little evidence that they can do so more efficiently than public authorities.

One of the interesting features of the alleged 'set' of failings of the public authority housing system is that most of them are a direct consequence of the Commonwealth Government's failures of omission or commission and they have been within the power of the Commonwealth to correct. To argue that the present system is flawed and should be dismantled or radically altered is to throw the baby out with the bathwater.

Another interesting feature of the present proposals is that they are made with little regard for the debates over and reviews of similar schemes overseas.

I note that one of the proponents of this scheme says it will only work as intended if imputed rental incomes are calculated for all owner occupied housing, which I suggest will not happen any time soon. I also note that some of the more conservative international commentators on such schemes overseas say that for them to work without many of the negative effects rent controls need to be introduced – again, something which I suspect is unlikely to happen.

In welcoming the panel of speakers Dr Gleeson has assembled and you, the participants, to this Forum I must say I anticipate a lively, informative discussion. I declare my position in the sense that I hope that these discussions and others taking place around Australia will result in us being able to answer the question posed in the Forum's title with a strong NO!

We have already seen public housing reduced to welfare housing. If the present proposals go through unchanged, public authority housing will be reduced to residual social housing which I believe would be disastrous. I am hoping that the reaction to the present proposals will become the first steps in a campaign to return to a decent public housing program.

Thank you Mr Chairman.

The New Zealand Experience of Public Housing Reform

Laurence Murphy*

Abstract

Since 1991 the New Zealand government has embarked upon a process of reshaping the character of public housing and transforming the manner in which the state assists low-income households with their housing needs. This paper sets out the details of the reforms and examines some of the criticisms levelled at the changes that have occurred. It is argued that the introduction of an accommodation supplement has the potential to promote fiscal 'blowout' in government expenditure, may contribute to affordability problems and, combined with the changes in the management of public housing, increase social polarisation.

Introduction

The 1991 budget marked an important watershed in the re-fashioning of New Zealand's welfare state. Set within a wider agenda of creating 'welfare that we can afford' (Richardson, 1991), the budget announced significant reforms in the manner in which the state provided housing assistance to low-income groups. Key dimensions of the reforms included: the commercialisation of the state rental sector (which involved a move to market rents) and the introduction of an accommodation supplement. Embedded within this reform process was an explicit retreat from a long held commitment to the provision of public housing (Ferguson, 1994). In the language of the reforms, the provision of housing was no longer deemed a 'core activity' and all housing assistance was to be restricted to an income supplement.

Whilst the housing reforms conformed to a wider process of applying market principles to welfare issues, the implementation of these reforms proved problematic. Divisions within cabinet, and conflict between the

* Dr Larry Murphy is a lecturer in the Department of Geography, University of Auckland New Zealand

government and the chair of the Housing Corporation, resulted in some politically embarrassing revisions of early government announcements on the reforms. However, notwithstanding these administrative difficulties, key aspects of the housing reforms were put in place relatively rapidly and in 1992 the *Housing Restructuring Act* was passed which established Housing New Zealand Ltd (HNZ) as a Crown-owned entity and owner of state rentals.

The underlying ideology and rationale for the housing reforms have been examined elsewhere (Murphy and Kearns, 1994; Morrison and Murphy, 1996). In this paper I outline the main elements of the reforms then identify criticisms and examine their validity in the light of some recent empirical data.

Elements of the Reforms

The reforms were presented as a means of encouraging 'fairness, self-reliance, efficiency and personal choice' (Luxton 1991: i). It was argued that since state tenants received a greater subsidy from the government compared to private tenants, the existing system was inherently unfair. Moreover, it was maintained that the system that had operated since 1974 and which involved state tenants paying income related rents, had become a large bureaucracy which promoted dependency, inhibited peoples' choices and promoted the over-consumption of space. To remedy the perceived problems of state housing the National government opted for a fundamental redirection in housing policy. In essence the government chose to replace a set of supply-side subsidies (the provision of rental accommodation) with a demand-side subsidy (an accommodation supplement). The main elements of the reforms were:

- the establishment of a commercial rental company, Housing New Zealand Ltd, to manage the rental stock;
- the move to market rents in the state sector;
- the introduction of a means tested accommodation supplement;
- the sale of prime rate Housing Corporation mortgages.

The reforms were designed to be fiscally neutral and it was acknowledged, from the outset, that state tenants would be required to pay more for their accommodation under the new subsidy regime (Luxton, 1991).

Criticisms of the Reforms

From their announcement the reforms were criticised by community and tenant organisations as well as academic commentators. The government's claims that the reforms addressed inequalities were considered 'fanciful' (Roberts, 1992, p 7), in that assistance to state tenants was being reduced significantly while the assistance to other groups was only marginally greater than the housing allowance already available to beneficiaries. Amid the number of criticisms levelled at the reforms, three key issues can be identified. These issues concerned: 1) the conflicting objectives of Housing New Zealand, 2) the potential for 'fiscal blowout' and 3) the extent to which the reforms failed to meet real housing needs.

The conflicting objectives of Housing New Zealand

Since 1974 the Housing Corporation operated as a multi-functional bureaucracy charged with managing state rentals, constructing or acquiring new rentals, administering government mortgage schemes and administering the *Residential Tenancy Act* (1986). By the late eighties the rental operation of the Corporation had increasingly become targeted towards those in serious housing need (MacLeay, 1992; Ferguson, 1994). Despite its increasingly focused role in the rental sector the Housing Corporation was deemed an inappropriate vehicle for implementing the government's plans in housing. Accordingly, the *Housing Restructuring Act* established Housing New Zealand as the new manager of the state's rental properties.

The Act requires Housing New Zealand to operate in a manner which makes it 'as profitable and efficient as comparable businesses not owned by the Crown' and to exhibit a 'sense of social responsibility' (*Housing Restructuring Act* 1992: 5). The legislation places a legal onus on the company to operate in a commercial and profitable manner and necessarily results in a dilution of security of tenure, since a tenant's capacity to remain in a state house reflects their ability to pay market rents. It was assumed that the new regime would result in the rational consumption of space. Thus single person households would receive income assistance that matched their housing needs (ie for a single bedroom property). This position was difficult to sustain since many elderly tenants lived alone in family properties and there was a distinct lack of single bedroom units in the New Zealand housing system. In response to the problems of the elderly a special

Tenure Protection Allowance was introduced which provided assistance to tenants over the age of 65 who had been state tenants prior to 1992.

Despite the assistance offered to some tenants, it is clear that the legislative environment in which Housing New Zealand operates embodies significant contradictions. Not least of these contradictions is the degree to which 'social responsibility' remains subserviant to 'market rationality'. The manner in which this contradiction is resolved has implications for an individual tenant's security of tenure but also has the potential to influence social polarisation at an urban scale (see below).

Fiscal blowout

Whilst the move to an accommodation supplement was questioned in terms of the extent to which income supplementation can meet real housing needs, it was also criticised with respect to the potential cost of such schemes. The international experience of accommodation supplements consistently points to the long term problem of increasing costs to governments (see Forrest & Murie 1991; Howenstine 1986; Kemp 1990).

In terms of its construction, the accommodation supplement was designed to be an adequate, but not too generous, scheme. Low income households in any tenure are eligible for the supplement, which is administered by the New Zealand Income Support Service. The supplement covers '65 per cent of housing costs that exceed 25 per cent of net income and is subject to regional maximum for different family types' (Department of Social Welfare 1996: 54). The regional maximum payments are designed to take cognisance of variations in housing costs across regions.

The supplement is less generous than the UK system (Kemp 1990) and requires that all recipients pay in excess of 25 per cent of their income on housing. From the outset it was acknowledged that state tenants who had paid income related rents set at 25 per cent of their income would have to pay more for their accommodation.

Despite the less than generous character of this benefit, the cost of providing the supplement has increased significantly since its introduction (see Table 1). The total cost of the benefit has risen from NZ$352m in the fiscal year 1993/94 to NZ$561m in 1995/96 and now amounts to 5.3 per cent of all welfare payments. The 1995/96 payments are almost 18 per cent in excess of earlier projections of the cost of the benefit (Birch 1994: 185).

Table 1: Social Welfare Payments

Benefit ($ million)	1993/94 Actual	1994/95 Actual	1995/96 Est. Actual	1996/97 Forecast	1997/98 Forecast	1998/99 Forecast
Superannuation	4,931	4,982	5,054	5,058	5,005	4,965
DPB	1,204	1,269	1,375	1,462	1,511	1,569
Unemployment Benefit	1,483	1,320	1,244	1,246	1,173	1,093
Invalids Benefit	391	429	483	530	569	610
Sickness Benefit	305	332	356	387	398	413
Accommodation Supplement	352	491	561	627	625	619
Family Support	645	700	746	838	921	946
Independent Family Tax Credit				100	208	221
Disability Allowance	116	130	147	171	183	193
Transitional Retirement Allowance	87	88	101	113	127	139
Special Benefit	67	83	88	87	81	78
Benefits paid in Australia	28	31	30	40	47	58
Other benefits	677	446	437	447	454	456
Total Welfare Benefits	10,286	10,301	10,622	11,106	11,302	11,360

Source: Birch 1996

This increase in cost reflects trends in the rate of take-up of the accommodation supplement and the increase in average payments in line with increasing housing costs (Birch 1996). Significantly, the cost of the benefit is forecast to rise to NZ$627m in the year 1996/97 and thereafter to decline (see Table 1). Implicit in any forecast of declining payments is the

assumption of either a stable or declining number of recipients and/or a decline in average payments. Given that maximum regional payments have had to be revised upwards over the last two years it is likely that attempts to control increased costs will centre on redefining eligibility. Thus, it is likely that fiscal considerations, rather than housing needs, will determine the future evolution of the supplement.

Fails to meet real housing needs.

In making the policy shift from targeted provision to income supplementation the government relied primarily on the Treasury's view that the main housing problem facing low-income groups was a lack of income (Treasury, 1987). Within this conceptual framework an income supplement is deemed to enhance consumer sovereignty, boost effective demand for low income accommodation and ultimately stimulate the provision of privately provided low-income housing. To conceive of the housing market in this manner ignores issues relating to the investment decisions of rental providers (especially small-scale providers), fails to acknowledge the structural characteristics of the existing housing stock and ignores the existence and persistence of discrimination against minority groups (see Colmar Brunton, 1994; MacDonald, 1986; Murphy and Urlich Cloher 1995). In order to examine whether the reforms are meeting housing needs I shall focus on three issues: housing costs, the character of the accommodation supplement and the potential for social polarisation.

Housing Costs

The reforms were designed to create a seamless rental market (see Luxton 1991; Morrison 1995; Morrison & Murphy 1996) and as such were dependent upon the implementation of market rents in the state sector. Since 1992, Housing New Zealand has been involved in a staged transition to market rents. Rents are now set in relation to prevailing private rental levels within a locality and are no longer tied to a tenant's income. Market rents are monitored on a quarterly basis and rent reviews are implemented annually on the anniversary of the tenancy.

Table 2 provides information on HNZ rents in Auckland. This region accounts for 30 per cent of HNZ tenancies and is also the region with the highest rental costs. Prior to the reforms 91 per cent of public tenants in Auckland (includes local authority tenants) paid less than NZ$150 a week in rent (see Morrison and Murphy, 1996). For all HNZ neighbourhood areas

Table 2: Housing New Zealand, Rents Paid Per Week (Auckland)

Neighbourhood Unit	$100-199		$200-299		$300-399		$400 upwards	
	1995 %	1996 %	1995 %	1996 %	1995 %	1996 %	1995 %	1996 %
Takapuna	76.8	56.7	22.0	43.0	-	0.22	-	-
Henderson	93.0	72.2	6.0	27.5	-	0.06	-	-
Mt Albert	83.0	61.2	15.0	38.0	-	0.73	-	-
Auckland Central	76.4	63.9	17.3	35.1	-	0.09	-	-
Mt Roskill	89.0	63.2	9.3	36.8	-	-	-	-
Royal Oak	85.6	74.3	12.3	25.6	-	0.15	-	-
Orakei	83.7	48.2	13.7	51.0	-	0.7	-	-
Glen Innes	90.4	77.8	4.9	20.6	-	-	-	-
Panmure	88.2	59.0	10.8	40.0	0.09	0.35	-	-
Mangere	91.0	70.2	8.4	29.8	-	-	-	-
Otara	95.8	87.2	1.5	12.3	-	-	-	-
Manurewa	97.0	77.3	2.6	22.6	-	-	-	-
Papakura	95.0	75.9	4.5	24.0	-	-	-	-
Papatoetoe	90.0	76.8	7.8	23.0	-	-	-	0.07
Auckland Region	89.0	70.0	9.0	29.0	0.06	0.12	0.02	.004

Source: Hansard 1996a

there has been a significant increase in the proportion of households paying in excess of NZ$200 per week for accommodation in the period 1995/96 (Hansard 1996a). Suburbs such as Otara and Manurewa have experienced a

greater than eightfold increase in the proportion of households paying rents between NZ$200-299 per week, compared with a threefold increase in the regional figure. More than half of HNZ tenants in Orakei pay more that NZ$200 dollars a week in rent compared with just 13 per cent in 1995.

The increases in rents need not necessarily have resulted in an affordabilty crisis given the existence of the accommodation supplement. However, studies commissioned by the Ministry of Housing indicate that low-income households are paying a greater proportion of their income on accommodation costs. In the early stage of the move to market rents in the state sector the Ministry estimated that 20,000-30,000 households were in serious housing need and that approximately half of these had housing costs in excess of 50 per cent of their incomes (Kelsey 1995). A recent study indicates that 'Accommodation Supplement recipients have a lower proportion of their non-equivalised income remaining after accommodation costs, compared with non-Accommodation supplement recipients' (Colmar Brunton 1996: 17). Indeed, 41 per cent of supplement recipients, when surveyed, indicated that they were paying in excess of 50 per cent of their income on rents. Thus, whilst the supplement is assisting households with housing costs, recipients are bearing a larger proportion of their housing costs compared with a system based on income related rentals. Moreover, the issue of affordability does not simply rest on the proportion of household income devoted to accommodation costs but must also be linked to an assessment of the adequacy of the after-rent income. To date the issue of 'adequacy of after-rent income' has received little attention from either official or academic reviews of the reforms.

With respect to the issue of housing costs, it can be argued that the existence of a supplement has underpinned the rise in rentals in the low-income sector of the market. Whilst it is difficult to attribute the degree to which recent rent increases are a product of market cycles or housing policy shifts, it must be acknowledged that, following international experience, supplements can induce rent increases (Howenstine 1986; Harloe 1985). In this context, it is argued that as landlords become aware of the existence a supplement they will factor this into their rent setting procedures and the supplement becomes exposed to what has been termed 'landlord capture' (Murphy & Kearns 1994; Roberts 1992). It is worth noting that HNZ, the largest landlord in the market, operates in close co-operation with tenants and Income Support to ensure that their tenants receive the supplement. Moreover, HNZ alerts the Minister of possible affordability problems

resulting from rent increases and, in effect, become an industry lobbyist for increases in the supplement.

The Accommodation Supplement

The Accommodation Supplement was designed to assist all low-income households with accommodation costs irrespective of their housing tenure. In this section I will examine the socio-economic characteristics of accommodation supplement recipients.

Since its introduction the number of recipients of the accommodation supplement has increased from 186,835 (September 1993) to 280,281 (June 1996). Table 3 provides a breakdown of the supplement by type of accommodation for the week ending 21 June 1996. Whilst these figures represent a snapshot of a seasonally fluctuating set of recipients, they offer some insights into the nature of the population assisted by this benefit. Significantly, beneficiaries account for 95 per cent of all supplements paid out and thus, despite the rhetoric surrounding the reforms, the supplement offers little assistance to low-income non-beneficiaries. In terms of the tenure characteristics of recipients, 59 per cent of supplements were given to people in the rental sector with the majority of these (67 per cent) being in the private rental sector. HNZ tenants accounted for 17 per cent of all recipients and 29 per cent of renters. Interestingly, boarders accounted for 25 per cent of all supplements. The significance of boarders raises issues concerning the manner in which low-income households are developing strategies to maximise their income in order to cover their rents. Indeed, it may be the case that the new housing regime is promoting higher occupancy rates among low-income households.

Unemployment and Domestic Purposes beneficiaries account for 69 per cent (183,671) of the beneficiaries receiving the accommodation supplement (see Table 4). Average payments range from NZ$23 per week for unemployed persons to NZ$49 per week for those on DPB. Whilst these figures disguise regional variations in levels of payments, they indicate that many recipients receive far less than the maximum payments available. Moreover the value of the supplement to a beneficiary needs to be set within the context of changes that have occurred to benefit rates within New Zealand. As part of an attempt to reconfigure the benefit regime, the

Table 3: Accommodation Supplement by Type of Accommodation (21 June 1996)

Type of Accommodation	Beneficiaries & Pensioners	Low Income Earners	All
Renters			
Housing New Zealand	44,563	3,591	48,154
Te Puni Kokiri			17
Council	2,144	46	2,190
Residential Home	4,288	300	4,588
New Zealand Housing Corporation	28	1	29
Other	105,444	6,020	111,464
All	156,484*	9,958*	166,442
Boarders	70,046	399	70,445
Mortgagors			
New Zealand Housing Corporation	7,522	343	7,865
Housing New Zealand			68
Te Puni Kokiri		1	1
Council			1
Residential Home	3,371	475	3,846
Other	27,768	3,577	31,345
All	38,730*	4,396	43,126
Not Classified	8		8
Total	265,286	14,753	280,021

Note: This table is taken directly from the Department of Social Welfare Statistics Report (1996) page 56. Some minor errors in summations are evident in this table and are indicated by an asterisk (*).

Table 4: Accommodation Supplementation by main Benefit Type (30 June 1996)

Main Benefit	Number	Average Weekly Value ($)
Unemployment [1]	93,271	23.17
Training	8,820	33.25
Sickness	23,608	37.84
Invalids	21,774	34.63
Domestic Purposes	90,400	49.06
Widows	3,334	42.91
Transitional Retirement	1,707	34.55
New Zealand Superannuation	22,012	32.80
Veteran's Pension	342	30.91
Low income earners nor receiving a main benefit	14,753	40.84
Total	280,021	39.32

Note: [1]includes 55 plus benefit, job search allowance, and independent youth benefit.

Source: Department of Social Welfare (1996) p57.

National government imposed significant cuts to the base rates in their 1991 budget. As a consequence of these changes the 'household income of beneficiaries fell from 72 per cent of the mean equivalent disposable income before the benefit cuts to 58 per cent in 1993' (Kelsey 1995: 277) and DPB recipients with 2 children sustained an 8 per cent cut in weekly payments. Thus, it can be argued that the accommodation supplement, although directly linked to accommodation costs, represents a compensatory mechanism for deficiencies in the adequacy of base payments. Interestingly, with respect to advance payments, (ie. payments made to meet immediate and essential needs which are subsequently recovered by Income Support) 'accommodation need' was the largest single reason for obtaining this

payment. In the year ending 29th June 1996, 81,623 advance payments totalling NZ$32 million were granted to meet accommodation needs (Department of Social Welfare, 1996). This suggests that the accommodation supplement is not sufficient in itself to meet housing 'need'.

Finally, with respect to housing costs, it should be noted that a recent analysis of the accommodation supplement indicates that only 65 per cent of eligible households are receiving the supplement and that 'eligible beneficiaries are four time more likely than eligible non-beneficiaries to take up the accommodation supplement' (Colmar Brunton, 1996, p4). Under these circumstances it must be asked to what extent has the introduction of the supplement adversely affected housing affordability among non-recipients?

Spatial dimensions of the reform process

A point neglected in official discourses of the reforms, is the extent to which the creation of a single rental market based on market rents has the potential to enhance social polarisation. Given that state rentals now incorporate a locational premium, there is an inherent pressure to reconfigure the locational characteristics of the public stock. In a recent public forum, the Auckland Regional Manger of Housing New Zealand indicated that the company was concerned with 'meeting housing needs, not wants'. Implicitly, the concept of need is constrained to to the single issue of rents and ignores issues related to location and accesibility. The move to market rents will force HNZ to sell off housing in high rent areas and focus on the provision of housing in areas that are characterised by low rents. The net result of such a policy will be the concentration of low-income households in specific areas of the city.

In an analysis of the geography of the housing reforms Morrison and Murphy contend that the

> needs of the mass of low income households requiring rental assistance are likely to be increasingly met in clusters of former Housing Corporation housing whose particular socio-economic mix is likely to be intensified through development of further rental accommodation. The very uneven access of state housing assistance condemned under the old supply-based system will have been removed, but shows every sign of being replaced by one in which even access (in terms of accommodation assistance) applies- but to an increasingly segregated housing stock at the bottom of the price range (1996: 230).

Since taking charge of state rentals HNZ has reduced the total stock of units by 4 per cent. In Auckland, as part of the company's restructuring process and as a consequence of the government's right to buy scheme, 593 HNZ units have been sold since 1992. Sales have occurred throughout the city, but the majority of sales in the period 1995-96 have occurred in central Auckland and suburbs dominated by private rental accommodation (Hansard 1996b: 6728-6730). In contrast, the small number of acquisitions (80 units) have been concentrated in peripheral, traditionally low-cost, areas of south and west Auckland. Despite the company's desire to avoid the creation of large-scale ghetto estates at the neighbourhood level, the evidence suggests that the company's policies are encouraging socio-spatial polarisation at the metropolitan scale. Indeed, HNZ's most recent housing scheme is being developed in Glen Innes, an area in which state rentals already dominate the housing stock (Murphy 1994). The social costs of increased social polarisation are significant and are likely to exacerbate the problems confronting low-income households already faced with significant changes in health and education services (Kelsey, 1995).

Conclusion

The New Zealand housing reforms were introduced within a political discourse which stressed fairness, individual choice and fiscal responsibility. It is questionable whether any of these objectives have in fact been secured. Equality of access to the accommodation supplement, does not ensure equality of treatment for households in a market driven environment. State tenants have sustained significant increases in their rents, placing them on a par with private tenants, but there is no evidence that the supplement has ensured that rental accommodation has become more affordable for tenants as a whole. Indeed, it seems more likely that the supplement has been incorporated into the rent setting strategies of private landlords and has become a subsidy for landlords operating in the lower end of the market. The effect of this indirect subsidy has, as yet, been insufficient to promote any large-scale construction of private low-cost rental housing.

The rising cost of the supplement has implications for the future development of this benefit. If costs are to be controlled, it is likely that eligibility criteria or abatement levels will have to be reviewed. This certainly seems likely, given that at present only 65 per cent of eligible

recipients are receiving the supplement and costs have increased well beyond early official forecasts.

If the supplement has impacted upon market rents, then low income households which are eligible for, but not receiving, the supplement may have been adversely affected by the reforms. The old system, which was decried for differentiating between low-income tenants in the private and public sectors in terms of government subsidy, has been replaced with a new form of inequity. Moreover, whereas the old system of public subsidy ensured some control over the basic standard of accommodation provided to a targeted set of low-income households, the new system is simply a cash subsidy which offers little assistance for those who may suffer discrimination in the free market (Maori and Pacific Island families, solo parent households, mentally ill persons etc). For many of these households the freedom to choose has become a matter of 'coerced choice' as they are forced to take what they can get in a market that has experienced rapidly rising rents.

It is interesting that in spite of the changes in the state rental sector, HNZ continues to operate waiting lists. In 1996 it was reported that there were 10,115 households on the HNZ waiting list in Auckland alone (NZH, 1996). Whilst approximately 25 per cent of these were existing tenants seeking transfers, the figures indicate that there remains a significant demand for public housing. Given that the reforms were designed to erase differences between the public and private rental markets, the waiting lists are a testimony of demand for rental accommodation that is managed by a state agency, notwithstanding its commercial structure. In contrast to private rental accommodation which has generally been characterised by a large degree of insecurity of tenure, public housing evidently offers occupants some security from the vagaries of the market and the activities of capricious small-scale private landlords.

The result of the recent mixed member proportional (MMP) election has cast doubt on the future direction of the reform process. Whilst National are keen to continue with the reforms that they introduced, New Zealand First are seeking to freeze market rents in the state sector but do not wish to return to an income related rent regime. The future of New Zealand's experiment in housing policy will be set by the first coalition budget of 1997. However, it is likely that the new coalition government will persist with the accommodation supplement and market rents.

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The Industry Commission's Approach to Housing Assistance

Max Parker*

Abstract

In 1992, the Industry Commission was asked to report on ways in which governments might deliver public housing and rental assistance more efficiently and effectively. The Commission's report (IC 1993) has 17 recommendations which propose significant changes in the roles of Commonwealth, State and Territory governments in the provision of housing assistance.

After an extensive inquiry, the Commission concluded that the provision of public housing is a cost effective way to meet government housing objectives and that a mix of assistance measures is needed: public housing, rent assistance, community (including co-operative) housing, and headleasing from the private sector for on-leasing to a tenant.

Many of the reforms now proposed by the Commonwealth Government follow the broad thrust of the Commission's report, but in some important areas the Commonwealth appears to favour a reform path quite different from that recommended by the Commission. The comments below point to areas of agreement, but also departures from the Commission's approach – notably in the relative weights attached to public housing and private rental assistance.

Reassessing Roles

In Australia, housing assistance for low income families is provided through public housing and rental assistance arrangements. Since 1945, public housing has been funded through the Commonwealth-State Housing Agreement (CSHA) and delivered through State Housing authorities. The bulk of assistance to low-income families in private rental has been through the Commonwealth Rent Assistance scheme.

Despite general agreement on the principles for delivery of housing services through the CSHA, there have been significant differences in the

* Dr Parker is a former Commissioner of the Industry Commission and presided on the Commission's inquiry into Public Housing, completed in November 1993.

ways in which State governments have used their public housing authorities. Shared responsibilities under the CSHA have also provided opportunities for each level of government to escape scrutiny. As part of a functional review of housing programs conducted for the 1990 special Premiers Conference, Housing Ministers agreed that a basis for co-operation between the States and the Commonwealth would have to be developed and that the role of the States in delivery of housing services should be strengthened.

In its public housing report the Industry Commission (IC 1993) built on that agreement. In order to clarify roles and enhance accountability, it proposed that capital funding under the CSHA be replaced largely by recurrent funding and that:

- the States should take full responsibility for public housing;
- the Commonwealth should administer income support policy; and
- the CSHA should be replaced in part by bilateral agreements reflecting the new regime of responsibility.

If adopted, the Commission's recommendations would lead to State and Territory governments assuming responsibility for the housing of all of their people on low incomes, including the provision of low-cost public rental accommodation. Should low-income people generally, or particular groups such as young people, continue to be in housing need, this would become very apparent. Each State would be free to adjust the level of its housing stock, but any reduction in funding for public housing could be expected to bring pressures from community groups which, under the new arrangements, would be better placed to identify the real level of support.

The Commission recommended that the Commonwealth should contribute to the cost of public housing in two ways. First, in keeping with its income support role, the Commonwealth should make payments to the States equivalent to the sum of the rent assistance that each public tenant would receive if in private rental. Second, the Commonwealth should make negotiated payments to the States in support of an appropriate level of public housing provision. The Commission intended these support payments to be in the nature of a contract – a payment for a service – with individual States acting as agents.

The Commonwealth was expected to negotiate with each State, having regard to differences in housing costs, the additional costs in housing people with disabilities, and the number of people in various categories in need in

each State. Because the support payments would be determined by *need*, funding relativities could differ significantly from *per capita* Commonwealth funding under the CSHA.

Underlying the reforms proposed by the Commission was its finding that there are financial gains to the Commonwealth from public provision of low-cost housing. Without an adequate public supply of rental accommodation, rents could be expected to rise because private supply in the low-cost segment of the market is relatively unresponsive to price; after-housing poverty would rise; over-crowding would be detrimental to health; and the Commonwealth would be faced with increasing outlays on income support. Given this prospect, the Commission argued that it is in the Commonwealth's interest to provide financial incentives for the States to maintain an appropriate level of public housing.

Since its release, the Commission's report has been under consideration by the Council of Australian Governments (COAG). Consistent with the broad thrust of the report, a position paper (COAG 1996) released in June 1996 proposed that the Commonwealth should take responsibility for recurrent funding of income support and that the States, with the private sector, should be responsible for the provision of housing.

The support payments recommended by the Commission are *not* overtly part of the Commonwealth's preferred approach. Rather, the Commonwealth has flagged the possibility of an adjustment to financial assistance grants 'in order to ensure that one level of government does not gain at the expense of the other' (COAG 1996: 5) It proposes to discontinue the payment of capital grants for public and community housing, while extending eligibility for rent assistance at higher than current levels to public tenants. The latter development suggests that the Commonwealth proposes to place substantial reliance upon rent assistance in the private sector.

Public Housing Vs Private Rental

Assistance targeting the housing needs of people on low incomes has advantages over general income support if only because there is more certainty that the assistance will reach those for whom it is provided – for example the spouse and children; it helps avoid perverse incentives – for example cash payments spent in the expectation that governments will continue to provide support; and taxpayers may prefer that assistance is

targeted to housing. Accepting the need for targeted assistance, there is still the question whether governments should intervene on the supply side (as through public housing), or on the demand side (as through housing vouchers or rent assistance).

The Industry Commission assessed these options against social objectives of the type agreed in the National Housing Strategy (NHS 1991) – affordability, appropriateness, equity, choice and security of tenure. It concluded that a *mix* of housing assistance measures is needed – including a strong public and community housing sector. Public housing offers secure tenure, non-discriminatory access and other benefits that are denied to many low-income and disadvantaged people in private rental. To extend choice, the Commission recommended that assistance for eligible tenants who choose to join a community housing scheme should be similar to that received in public housing, the level of assistance depending on the extent of government ownership.

The Commission did not ignore the demand side; indeed it saw an important role for rent assistance. People who cannot, or do not, aspire to home ownership don't necessarily look to public housing. Hence by subsidising low-income tenants in private rental or community housing, governments can add to the choice of tenure and improve after-housing income. In addition to rent assistance, the Commission saw a role for housing authorities or community groups to headlease properties for on-leasing to low-income tenants. By reducing the likelihood of discrimination and encouraging investment in low-cost accommodation, headleasing can shift the balance a little more towards private rental.

The Commission found that most low-cost rental accommodation within the private sector has filtered down from previous uses. It argued that this is a residual market, not generally attractive to private investors. Because supply responses in this segment of the market are restricted, governments wishing to attract more properties into private rental have to overcome this by outlaying additional amounts of rent assistance. Existing landlords are unavoidably paid more even though the additional payment is not needed to hold them in the rental market; and existing recipients of rent assistance come to require additional support.

These effects underpin the Commission's much publicised finding that public housing is cost-effective. Elements of the argument are that:

- The discrimination that many low income tenants face in the private rental market might be overcome by selectively providing high levels of rent assistance – but this could be a very expensive solution.
- Rents in the low-cost private rental market are likely to be high where landlords are risk-averse and it is difficult and costly to get adequate insurance.
- Rent assistance is only effective if it increases the supply of accommodation; but supply will only increase if rents (and therefore returns) increase. The higher rents are paid to owners of existing dwellings as well as those of the new dwellings. This transfer to existing landlords is avoided where governments own the housing stock. The extent of the transfer will of course depend on the impact of rent increases on the supply of rental accommodation, ie. supply elasticities.

The Commission, in Appendix C, points out that there has been little estimation of supply elasticities of housing services in Australia. However, it takes the view that in the low-cost rental market, long run supply elasticities are lower than for the general market if only because rental stock at the lower end is not purpose-built. In arguing that low-cost rental accommodation forms a residual market, relatively unresponsive to price, the Commission draws on the work of other researchers relevant to the current debate:

> ...the supply of private rental housing has increasingly become the preserve of smaller, unsophisticated investors; as a residual investment sector it does not appear that private rental housing will deliver the smooth supply responses required of it by a large scale housing allowance program. (Econsult 1989: ii)

> ...despite this renewed confidence in markets, income-related housing allowances have apparently not, by themselves, been sufficient to induce an adequate supply of low-income rental housing. (Kemp 1990: 807)

It now seems that the Commonwealth proposes to place far greater reliance upon rent assistance in the private sector than was recommended by the Commission. The Commonwealth's preference for a common rent assistance payment for public and private tenants is expressed in the COAG position paper along with the contention that 'if subsidies for private and public renters were equal, then the existing level of public housing supply might be more than required in some States' (COAG, 1996:3).

In discussing ways to deliver better housing options for the 235, 000 Australians waiting for public housing, the Minister for Social Security, Senator Jocelyn Newman, has also raised the profile of private rental. Having drawn attention to the available supply of rental accommodation, the Minister has emphasised the role of rent assistance in ensuring affordability in private rental, appearing to relegate public housing to circumstances where it is required to meet 'special housing needs, such as modified housing for people with disabilities and assistance for those facing discrimination' (*The Age* 9.10.96:A15). This was *not* an approach advocated by the Industry Commission.

The case for expanding rent assistance at the expense of public housing seems to rest on the perception that Australia has an adequate supply of private rental accommodation and hence that housing *affordability* is the major problem. A similar view can be seen in a paper prepared in March 1996 for the Department of Housing and Regional Development (Pender, 1996). The latter paper takes issue with the Commission's conclusion that the market for rental housing is segmented and that the lower end, affordable to low income people, is a residual market not generally attractive to investors. However, the paper makes no attempt to assess the supply side; it largely neglects the implications of discrimination and infers that examination of the demand for housing can settle questions about the nature of its supply.

The Commission had anticipated the need for some increase in rent assistance but did *not* call for a common payment for public and private tenants. It was concerned that common levels of assistance would cloud the different housing requirements of people on low incomes; lessen the effectiveness of assistance; and bring less equitable outcomes. A starting point for the Commission was the concern, expressed through the CSHA, to 'ensure that every person in Australia has access to secure, adequate and appropriate housing at a price within his or her capacity to pay' (CSHA 1989, Recital D). This is a commitment to more than just *affordable* housing. The wider ideals, particularly the concern to provide secure accommodation for those whose needs are long term, provide grounds for government support of public housing that are far broader than the special needs of some disadvantaged tenants.

By addressing housing affordability, the proposed increase in rent assistance for eligible tenants in private rental will assist some families and individuals, particularly those with short to medium-term housing needs and

the needs of more mobile sections of the population. It will not guarantee access to appropriate, long-term and secure accommodation, free of discrimination by landlords.

There is also a question of cost. A common payment for public and private tenants and a shift from public to private rental could mean a costly diversion of housing assistance. This follows from the finding that public housing is cost effective. Higher subsidies paid on private rental will benefit private landlords – a transfer avoided by maintaining government ownership of the housing stock and preserving some of the current relativity between public and private assistance. Finally, there are questions of equity. Rent assistance is paid according to the level of rent, not income. This contributes to vertical inequity and the potential (because the assistance is only available to those on pensions and allowances) that some households on low incomes will be ineligible.

It was on grounds such as these that the Commission called for the Commonwealth to provide rent assistance to all low-income tenants in private rental (including those not on government benefits) and for assistance to decline as income increases. It anticipated the need for some increase in rent assistance, but did *not* call for an increase to match the implicit public housing subsidy.

Reforms Needed Within Public Housing

A number of the Commission's recommendations are intended to promote reforms *within* the public housing sector.

The housing authorities have been responding to the need for change. For instance, the public housing stock is better managed than in the recent past; the authorities are more client oriented; and greater attention is paid to the surrounds and to community facilities generally. An increasing proportion of public housing is dispersed; the older housing estates are being renewed; and more attention is being given to spot purchases to improve the geographic mix of public and private housing. Notwithstanding progress in these areas, the Commission found a dearth of data by which to assess the performance of individual housing authorities, let alone compare one authority with another.

Three areas of particular concern to the Commission were eligibility for public housing, tenure provisions and rent setting arrangements.

Eligibility

The Commission recommended that the public housing authorities should recognise different *degrees* of need. Eligibility is presently based on household composition, income, and the time spent on a waiting list. Priority allocations are given in cases of special need, but approved applicants for priority housing may have a prolonged wait.

The Commission argued that categories of need should go beyond 'priority' and 'wait-turn' lists and that an applicant's relative need should be assessed against criteria such as household income and composition, potential for discrimination in the private rental market, and current living conditions. Thus recommendation 3 reads:

> All applicants for public housing should be assessed by the same criteria and, if eligible, placed on a single segmented waiting list within each State.

This arrangement would mean that people in similar need of housing would be placed in the same segment of a waiting list in order of their application. The rate of progression in each segment of the list would depend on relative need, thus those in the greatest housing need would be favoured.

Tenure

The Commission was concerned that asset management can be at risk where housing authorities are unduly constrained by the tenure granted to existing tenants. In recognition that the provision of 'appropriate' housing on unlimited tenure for some can be at the expense of deferring even basic shelter for others, recommendations 4 and 5 read:

> Security of tenure in public housing should be in a local area, not a particular dwelling.
>
> Housing authorities should be free to determine a tenure period shorter than 'life''when this is appropriate.

Both of these recommendations acknowledge the need, in very limited circumstances, to relocate some tenants.

Rent setting in public housing

The Commission proposed that the housing authorities should explore a new rent setting model.

Rentals for tenants in public housing generally fall between 20 and 25 per cent of gross income. At present, the housing authorities try to ensure that tenants in similar circumstances pay similar *rents*. However, where tenants with similar incomes and family circumstances pay similar rents, the rebates received are inequitable if tenants are allocated houses of different amenity.

The rent setting model proposed by the Commission places emphasis upon *benefits* (ie. levels of assistance) rather than rents. The housing stock would be valued at market values, but eligible tenants would continue to be subsidised. Thus recommendation 6 reads:

> Public housing rents should be set at market values. As long as tenants are offered a choice between appropriate dwellings, rent rebates should be structured to ensure that, within affordability limits, tenants in similar circumstances receive similar levels of assistance. Assistance should decline as income increases.

Under this arrangement, the small and decreasing number of people in public housing who can afford to rent in the private sector, but who choose to remain in public housing, would be required to pay market rents or negotiate to purchase the property.

Tenants in similar circumstances would receive similar benefits – an application of horizontal equity. Each household would receive a subsidy that would ensure that the market rent of a standard house in that region was affordable, given the household income and composition. Tenants in better housing (as reflected in the market price) would pay a little extra, but tenants eligible for rebates would continue to pay less than market rents.

The Commission anticipated that, given a choice of properties, some tenants may trade off their housing costs against other costs related to location, particularly transport costs.

When tested on a representative sample of Queensland public housing tenants, the model was found to provide more equitable outcomes. Those on lower incomes received a higher subsidy than those on high incomes; people on the same incomes in dwellings of different amenity received the same subsidy.

Changes in rental policies *are* foreshadowed by the Commonwealth, but only insofar as it proposes 'moving toward market rents for public housing to put housing authorities on a commercial basis and provide pricing signals for consumers' (COAG 1996: 4). Of course, the housing authorities have

been innovating in their own right in this and other areas of reform favoured by the Commission.

Separation of Roles Within the Housing Authorities

The Commission called for greater separation of roles within the public housing authorities; for instance, commercial functions such as land development and property management should be separated from activities associated with tenancy management. The approach draws upon a model favoured by John Mant in his review of the structure of the New South Wales Department of Housing (Mant 1992).

Some separation of roles is already occurring – as where the housing authorities establish business units responsible for the acquisition of public housing. Providing each unit charges the full cost of its service, the arrangements can enhance transparency, accountability, effectiveness and efficiency.

The Commission's recommendations go beyond the creation of business units in the one agency. It called for a separate body – the *property manager* - operating through regional offices, to be responsible for acquiring and maintaining a mix of housing assets. The property manager would work on a fee-for-service or contractual basis; receive market prices for the services provided; and be required to earn a rate of return on the investment and pay a dividend to government.

Under this arrangement, the main client of the property manager would be a *tenancy manager*, located in a separate agency. The tenancy manager would lease properties from the property manager or from the private sector and (where tenants have special housing needs) would work closely with agencies responsible for supported accommodation assistance programs. Public housing tenants would of course continue to pay subsidised (or market) rent, according to their individual circumstances.

Housing for Aboriginal and Torres Strait Islander People

No forum on public housing would be complete without some consideration of the housing needs of Aboriginal and Torres Strait Islander people. Some Aboriginal and Torres Strait Islander people are tenants in general public housing; others depend on special programs administered by

the State housing authorities and a community housing and infrastructure program administered through the Aboriginal and Torres Strait Islander Commission (ATSIC).

There has been targeted assistance for Aboriginal and Torres Strait Islander people for almost 30 years, yet a high proportion of Aboriginal people continue to be housed in conditions that most Australians consider unacceptable. In the Commission's view:

- the targeted approach has <u>not</u> been to the advantage of Aboriginal and Torres Strait Islander people; it has not resulted in improved transparency and accountability; nor has it produced levels of funding to appreciably close the housing gap;
- attempts to devolve responsibility for housing to Aboriginal communities have come at considerable cost where housing is provided ahead of satisfactory arrangements for its allocation and upkeep; and
- where assistance is provided under arrangements akin to community housing, the current model is not financially viable.

The latter point needs elaboration. Some housing has been provided through the Community Housing and Infrastructure Program (CHIP), funded by the Commonwealth Government and administered by ATSIC. Consistent with the emphasis upon self-management, self-determination and empowerment, communities own and are responsible for housing and infrastructure provided under the CHIP. The rents paid to housing organisations under the program are set in accordance with ability to pay and in some cases are so low that tenants are not eligible for rent assistance through the Department of Social Security. Yet the organisations are expected to fund all repairs, insurance, administration and municipal costs from rent. Even if all rents were collected, it is unlikely that the revenue would meet all recurrent outlays.

The Commission proposed changes to ensure that Aboriginal people receive at least the level of housing assistance available to public and community housing tenants, where they are eligible, and that they are subject to similar obligations. The reforms call for better demarcation of responsibilities; better linkages with public housing; and separate assistance to meet cultural needs. Under these arrangements, ATSIC would continue to ensure that needs related to Aboriginal culture are met, including the

additional costs of providing appropriate accommodation consistent with cultural needs in urban, rural and remote areas.

The Commission proposed that the Aboriginal Rental Housing Program be combined with the general public housing and community housing programs. It would then be clear that the States were responsible for the provision of housing and infrastructure for *all* people in need of assistance. The Commission's approach to eligibility – a single, segmented waiting list within each State and a common set of eligibility criteria – would ensure that people in the greatest housing need would be favoured since the rate of progression in each segment would depend on relative need. Should Aboriginal communities continue to be poorly served, this would become very apparent and it would be clear who is to be held accountable.

In response to a draft of the Commission's report, the Indigenous Australians Shelter Conference, in November 1993, tabled the following motion:

> ... the Conference recognises the inability of (most/all) Aboriginal Housing Associations to adequately maintain their housing, pay decent award wages to staff and plan properly for growth and stability. And generally support the Industry Commission's recommendations for parity with State/Territory Housing Authorities, providing cultural differences are recognised in the arrangements.

The community housing model proposed by the Commission has general application and would be financially viable in urban, rural and remote settings. When used to assist Aboriginal and Torres Strait Islander people, it would have the added advantage of promoting self-determination while maintaining Aboriginal control over land and housing. Families eligible for public housing would have the option of joining a community housing scheme where they would be assisted to the same degree as public tenants in similar circumstances.

Progress With Reform

Since the release of the Commission's public housing report, in January 1994, the government's response has come through various communiqués. In a joint ministerial statement (Howe, Baldwin & Gear 1994) at the time of its release, the government acknowledged that the Commission had identified areas in need of improvement and undertook to work with

State/Territory governments and the community in developing a view on the best option for implementing housing policy reform. It rejected the proposal that the Aboriginal Rental Housing Program be combined with general public housing programs, in favour of negotiated agreements between the Commonwealth, ATSIC, States and Territories. One aim of the negotiations has been to integrate the various programs by channelling funds through ATSIC to the States.

In February 1994, Commonwealth and State Housing Ministers were asked to address issues identified by the Commission and report to COAG on policy reforms that would clarify roles and responsibilities in the delivery of housing services. The proposals endorsed by COAG, in April 1995, involve:

- the Commonwealth accepting responsibility for housing subsidies and affordability; and
- the States and Territories accepting responsibility for the management and delivery of public housing services.

In April 1996, the Prime Minister confirmed Commonwealth support for a two-stage process of reform involving a transitional CSHA ahead of a longer term agreement to be negotiated through COAG. In June 1996, COAG took note of a position paper (COAG 1996) in which key problems identified in the Commission's report were listed and a timetable set for further negotiations ahead of the first meeting of COAG in 1997.

These developments address the Commission's concern that governments should clarify their housing objectives and provide housing assistance under arrangements that improve accountability and transparency. They also maintain the pressure for improved performance on the part of the housing authorities in each State. However, the expansion of rent assistance and the relegation of public housing to circumstances where it is required to meet special housing needs were not developments advocated by the Commission.

The Commission had been concerned that the full costs of housing assistance are not recorded and that governments do not know whether assistance is well targeted or delivered efficiently. Thus its recommendations were intended:

> ...among other things to bring to light the full costs and benefits of various tenures so that governments, in time, will be in a position to arrive at the best level and mix of assistance measures. (IC 1993: xxxviii)

The changes now under negotiation involve a shift from public housing to rent assistance, thereby pre-empting the Commission's approach. The danger is that undue reliance upon the private rental market will lead to a blow-out in the overall level of assistance without promoting better outcomes. Given the likely nature of the supply of low cost accommodation in Australia, it cannot be assumed that an increase in rent assistance will have negligible effect on rents. The additional subsidy will bring forward some additional private rental accommodation, but the real issue is: how much, of what quality; and at what cost?

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Is This The End of Public Housing?

Eleri Morgan-Thomas*

Abstract

Public housing has been one of the mainstays of housing provision for low income earners in this country. It provides one important service to its tenants that private rental cannot. Public tenants consistently identify security of tenure as the most important outcome of public housing. The private rental market in Australia is characterised by short term leases and a lack of sophistication on the part of property owners. This has resulted in the private rental market being quite residualised and 'unintentional'. Most investors do not invest with the intention of delivering a housing service and, as a result, the provision of rental housing is a secondary outcome for most investors. This severely limits the ability of the market to deliver good housing outcomes, particularly for low income earners.

The reforms currently being proposed for Australia's housing assistance system threaten the existence of public housing and are financially unsustainable in the mid to long term. The reforms promise to deal with affordability for low income private renters but do not address their fundamental housing problems which are about much more than just being able to afford the rent.

Introduction

Are we facing the end of public housing? Well many people who are the current and future recipients of housing assistance in Australia believe that public housing is on the way out and is about to be replaced by a vastly inferior system. Certainly public tenants, people on waiting lists, housing workers and housing advocates are worried that public housing cannot survive in the medium to long term if the proposed arrangements are put into place.

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* Eleri Morgan-Thomas is Chairperson of the National Shelter Executive

National Shelter is of course concerned with all low income housing consumers, not just public housing tenants. For over 20 years we have argued in defence of public housing as a means of providing safe, secure, affordable and appropriate housing for low income earners. We have always seen public housing not as an end in itself but as having the potential to deliver good housing outcomes in an economically responsible way. Over the years we have also been a critic of both State Housing Authorities' practices and of Commonwealth policies.

There have been many economic and social arguments for and against various forms of housing assistance, including public housing. Indeed, over the last few years there has been an inordinate number of analytical studies of housing assistance from reports generated during the International Year of Shelter for the Homeless (IYSH) in 1987, the National Housing Strategy in the early 1990s and the Industry Commission Inquiry in 1993.

During the Industry Commission Inquiry National Shelter and State Shelters argued convincingly that public housing was cost effective. The sector was elated when we won that particular argument. Perhaps we didn't particularly like what the Industry Commission recommended as a strategy for the future but occasionally now find ourselves going back to the 'good old days' of the Industry Commission!

Consumers often find it difficult to get a say and to have their voices heard in these inquiries and government negotiations. Much of the debate that is conducted is at an abstracted level that revolves around economics, finance and ideology. In our experience, tenants in particular are much more outcome focused and often, but not always, argue the same points over and over because regardless of the other arguments, they still want the same outcomes. This paper puts a consumer voice first and foremost and I have tried to fit the research to their views rather than the other way around.

A Consumer Perspective – Speaking With Their Own Voices

National Shelter has a long history of working with public tenants and other low income and disadvantaged housing consumers and attempting to represent their views fairly at a national level.

Public tenants are naturally concerned that any changes may impact on their own personal situation:

- will their rents go up?
- will they have to move?
- will their housing still be maintained?

But many of those tenants can see past their own situation. They are concerned that new public tenants:

- will have to pay higher rent than they do;
- might not get in at all if public housing is sold; and
- may have to stay in the private rental market.

Existing tenants know that waiting lists are long and prospective tenants might have to wait for years to get a home but they mostly all remember what a terrible time they had in the private rental market. Not only because rents were high but also because of the conditions in which they lived and the lack of certainty.

Throughout my involvement with Queensland Shelter and National Shelter, we have conducted numerous consultations, meetings and conversations with low income housing consumers and I have never met anyone who has said security of tenure is not important to them. A single parent with five children now living in public housing recently told me that:

> For 10 years I lived in the private rental market. I totalled the amount of times I shifted in that time and it was 17. One year I shifted five times. In private rental your security of tenure is only as good as the lease or the whim of the owner. In the past 11 years [since she has been in public housing] I have shifted once. (Pers comm 1996a)

The thought of moving house with five children in tow is likely to be an overwhelming experience for any family, let alone a single parent on a low income. Apart from the upheaval as children have to change schools and friends the costs of moving house are high. The National Housing Strategy estimated that this could be as high as $2,300 for a 3 bedroom house in Canberra in 1992 (National Housing Strategy 1992a: 21).

There are other public tenants who also find that the security of tenure provided for them in public housing is important for other reasons:

> As a mature person with a permanent psychiatric disability, private rental isn't an option as the Residential Tenancy Act 1992 (Queensland) discriminates against me in S170. Public housing affords me affordable, secure (continuity) of rental premises. (Pers comm 1996b).

A considerable proportion of public tenants are older Australians who are seeking to spend the remainder of their lives in as stable an environment as possible. It is most likely that older Australians living in rental housing have few resources and are unlikely to have an improving financial situation. One aged pensioner described the situation for herself and her husband:

> The only security we have in our lives is the knowledge we have a secure roof over our heads. ((Pers comm 1996c)

A second aged pensioner told me that what he was concerned about was that:

> There is no security of tenure in private rental housing, as pensioners we cannot afford to keep moving from time to time. (Pers comm 1996 d)

Probably without exception, every consultation that has been carried out within this sector, that National Shelter has ever done, every meeting we've held and every submission we have received, has mentioned security of tenure. It cannot be over emphasised how important security of tenure is to most Australians and to low income earners in particular. It is the one elusive element for the 15per cent of Australians who will never achieve home ownership (National Housing Strategy 1992b: 9).

How Long Will Guarantees Last?

Those tenants who are concerned about rents are highly sceptical about the ability of government to continue to deliver on subsidies in future years.

> Has the government considered that any upward movement of rents in the private market may affect their own costs in providing an adequate subsidy, as well as an increase of non Social Security recipients, who may fall into housing poverty because of such increase? (Pers comm 1996e)

Many public tenants are concerned about the relationship between market rents and public housing. For instance:

> I live in a complex of 28 single-bedroom units in New Farm (inner city Brisbane), which suburb has several similar blocks of units. In New Farm, private rents have been rising and will continue to rise steeply with the 'yuppification' of the area. Whatever our new rent, and however it is arrived at, will the consequent DSS Rent Assistance fully compensate?
> My neighbours and I have been suddenly hit with the spectres of anxiety and insecurity regarding our housing future. Will we be worse off? If so, by how much? Will we be forced to move? If so, where to? How much will this cost? (Pers comm 1996 f)

One tenant has written to me saying:

> The basic shortcoming of the scheme is that it was formulated on the amount of rent paid with the secondary consideration being the amount of income the tenant was receiving. Therefore rents were set to attract the maximum amount of rent assistance, making landlords better off while the tenant maintained a status quo. (Pers comm 1996 g)

Clearly many are questioning whether additional rent assistance will go to improving housing conditions or whether it will be quickly soaked up. Many are asking how this can possibly be sustainable and are thinking about the implications for them and public housing in general beyond the immediate impacts of the changes. Queensland Shelter's calculations show that a 10 per cent rise in median private rents increases the cost of providing a subsidy by about $100 million a year – just in Queensland[1]. Tenants are quite right to be concerned about how governments will be prepared to wear the costs of these types of increases.

Tenants are also asking how these changes will affect the fabric of Australian cities as government is forced to sell off high cost inner city housing and concentrate their efforts in the cheaper, less well located outer suburbs.

> This policy will, in time, act as a centrifuge flinging low income people into undesirable, unattractive residences in remote suburbs. Then, the tendency

[1] Calculated using an unpublished micro economic model of the current system and proposed changes to housing assistance. The scenario described here results in a $100 million increase required to meet the subsidy costs of providing rent subsidies to private renters before and after a price hike of 10% where all other variables remain constant. Rents were calculated as a proportion of income - 20 per cent for public tenants and 25 per cent for private tenants.

> will accelerate for inner suburbs to become exclusive enclaves for the wealthy. The identity and socio-economic mix of these suburbs will be destroyed. (Pers comm 1996 f)

The range of tenant concerns confirms, for me, that there is much more to this than just a NIMBY[2], kneejerk reaction. Tenants are clearly concerned about their own situation and how the changes will affect them. They are also concerned about how government can afford to fund these changes and what impact there will be on other low income housing consumers and even on our cities and towns. There is a sophisticated debate happening out there and the theoretical level is only part of it.

The Private Rental Market

National Shelter has aimed to have a foot in both camps. It is our role to be a conduit between consumers and the theoretical debate and to ensure that a consumer voice contributes to the debate. National Shelter has been a long term advocate for all low income housing consumers but over the last few years has been portrayed by both Labor and Liberal Ministers as not caring about people on low incomes who are living in the private rental market. In fact we care a great deal about the private rental market and have actively lobbied and advocated on private rental issues.

One of the recommendations of the National Housing Strategy in the *Agenda for Action* (NHS 1992b: 52) was that the Commonwealth develop a model of landlord-tenant legislation for all States. National Shelter successfully pursued this recommendation and lobbied hard for a representative body to be established to take this further. After much delay we were successful in getting the Commonwealth to establish a Reference Group which eventually produced a report on *Minimum legislative standards for residential tenancies in Australia* (Kennedy, See & Sutherland 1995). National Shelter was represented by one of our members, the National Association of Tenants Organisations (NATO) which had particular expertise in this area. We are fully aware of the inadequacies in State and territory legislation in this area and have pushed for reform through our State and territory member bodies and through Commonwealth avenues wherever possible.

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[2] NIMBY - 'not in my back yard'

It is no surprise to National Shelter that people are living in poverty in the private rental market. That is why we have produced numerous economic analyses and submissions across the spectrum of housing assistance in Australia – not just about public housing [3] National Shelter also produced items like the *Cost of Housing Report* (National Shelter 1995) which is designed to highlight affordability issues across all tenures in a simple and graphic way.

Our fundamental problem is that we don't believe the private rental market, as it currently exists in this country, has the capacity to provide safe, secure, affordable and appropriate housing for low income earners. But we are hardly radical in holding that view. The Industry Commission (1993b: 73-79) expressed its concerns in some detail and the National Housing Strategy said:

> There is considerable evidence to suggest that low-income private renters lack secure rental alternatives, particularly at the low-cost end of the market in major capital cities and many non-metropolitan areas. ... (Reform measures) need to consider the impact of current planning controls on the diversity and supply of low cost rental stock, particularly boarding house accommodation. (National Housing Strategy 1992b: 36)

Most, if not all, Tenants' Unions, who advocate on behalf of private renters, have concurred with these and similar statements about the ability of the market to deliver decent housing to low income earners. [4]

The private rental market shines as an example of a fairly shambolic market with poor demand and supply responses. Few people invest in it because they believe in what it offers or because housing is their business Most are there for other reasons.[5] As an observer of the private rental market, it seems that if investors were to embark on any other small business venture they would need to ensure they had done quite a bit more market research and worked on consumer responsiveness more in order to deliver a successful and profitable service. The evidence that rental investors are treating housing as a small business is currently not obvious to this observer at least.

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[3] For instance Pender 1993; Darcy, 1996; and Barrett, 1996.

[4] Various public statements and media releases.

[5] *See* B. Elton & Associates Pty Ltd 1991 especially p.43

For these reasons the market has failed to provide what people want and what they can afford. It is very much a residualised market in Australia (Industry Commission 1993a: 79), but there are private rental markets in other countries that do manage to provide housing in a more consumer responsive manner. For example, in many European countries tenants can get leases of decades rather than months which makes a big difference to the central concern of tenants. In those countries investors invest in long term rental housing – not a tax haven or as a security for retirement. Despite well documented market failure in Australia (Industry Commission 1993b: 50-52), governments have not chosen to intervene in order to develop a market that provides long term security of tenure or rent controls.

The conclusions we can draw from the evidence is that the private rental market is a market suffering from massive market failure. A market that has left thousands if not millions in poverty because housing, like food, is a basic necessity of life and people will spend much more than they can afford on housing in order to participate at a basic level in society. The market has been able to exploit this basic need by providing housing that is not affordable in any real sense. Nor is the housing appropriate in many cases.

Because of the overwhelming evidence of market failure in the private rental market, and its clear inability to meet the needs of low income housing consumers, National Shelter has argued for public housing as *one solution* to housing need because it is most economically wise in the long run to provide this form of housing assistance. However, we've also argued that government must address the issues in the private rental market. We cannot just write the private rental market off altogether because that is, in fact, where a large number of low income earners are currently housed and can expect to be housed.

It is also no secret that a proportion of people eligible for public housing prefer to stay in the private market. That's their prerogative and National Shelter has argued that their affordability problems can reasonably be resolved through the provision of rental subsidies. There must be a balance. However, it is interesting to note that there have been no studies of people who are eligible for public housing but have chosen not to live there. We may well speculate why that is so. Is it because they envisage their situation to be short term? They anticipate moving interstate? They do not know about public housing? We have no answers to these questions.

'What's Rational to You Might Not Be Rational to Me!'

A commonly expounded view within current Commonwealth Government rhetoric, is that public tenants only stay in public housing because it is cheaper. The assumption is that they are acting in a purely economically rational manner.

But economically rational public tenants tell a different story. They are rational with a long term view. They are prepared to discount the benefits of short term gain – for instance extra choice in the private rental market – when they compare that with the long term benefit of stability in public housing – even if the rents are exactly the same and conditions better in the private market.

What value stability and security of tenure? Obviously higher than most theoretical analysts in government have estimated. The Industry Commission attempted to value security of tenure as being worth market rent plus a suggested 2 or 3 per cent for those paying full market rent (Industry Commission 1993b: 216) but did not attempt to support this with a rigorous analysis of what people would be prepared to pay. There is *no* accepted *value* that can be attached to security of tenure. However, the evidence from public tenants is that security of tenure is worth a wait of several years in the private rental market if necessary.

A more mundane analysis of the quantifiable is possible. The cost of a move could be as high as $2,300 as quoted earlier. As an illustration we could take a look at the hypothetical case of Keith. (DSS 1996)[6]

> Keith is on a Disability Support Pension after an accident left him unfit for work. Keith and his daughter have been living in an eighth floor Department of Housing Unit for the last 3 years. Keith has a fear of heights and his flat is in poor condition so he has asked to be moved to a more appropriate location. Keith's request has been approved for priority rehousing, but he has waited 3 months so far and it looks like have may have to wait even longer for a place to become available. In the meantime his health is deteriorating and his daughter's health has also begun to suffer. If Keith had a rent subsidy paid to him direct he would be able to look around for more appropriate housing himself.

Tenants I quoted earlier were sure that affordability is but one factor in the equation. Most tenants I have shown this scenario to have just laughed

[6] DSS Housing reform information kit

and said that the Rent Assistance would only get you something of comparable quality without the security of tenure.

If Keith had Rent Assistance would he move to the private rental market? What's the best solution for him? I would argue that if Keith were to make a short term economically rational move to shift to the private rental market, he might be advised to do a little cost benefit analysis on his long term costs.

Firstly, Keith would need four weeks bond money (not subsidised by Rent Assistance) and presumably assistance to move house. Assuming Keith is in Sydney he would be looking at a market rent of $172 per week (for a two bedroom unit) so he's looking at $688 just for bond. Keith might be able to get a bond loan or grant from the State Housing Authority – currently funded under the CSHA in many States. However this is usually a loan and in most States he will have to pay it back over a number of months or years.

Assuming the best, this is a once only cost. Tenants who do not breach the tenancy agreement by paying their rent and not causing damage should get their bond back and their chances of getting the bond back in full are enhanced if they are in a State with a central bond lodgement authority. However, Keith will also have to take into account that in most States his bond money depreciates. Put in $688 and 1 year later get $688 back. So the cost of inflation and lost interest will have to be counted in his Cost Benefit Analysis.

If he has to get any additional services on – perhaps gas is connected in the new flat but not the old– that also attracts a security deposit. Maybe he will need assistance to move and the moves are likely to be more frequent. Even if they move once every two years – probably a conservative estimate from our understanding of the private rental market – those moving costs will be mount up.

It is worth noting too that if Keith was living in the private rental market the same scenario could apply – except that he would have to live in the flat for the remainder of his lease agreement in most States or pay the penalty cost of breaking the lease early.

The point is, the private rental market is not that flexible from the tenant's point of view in most States. This could be a problem for Keith if he recovers and gets a job that requires him to move – he would want to be getting good pay to escape from the lease because he may well have to pay

out his lease or find a 'suitable' tenant to take the lease over at his own expense.

That said, if public housing doesn't meet his needs, organisations like National Shelter, public tenants' associations and others should be lobbying strongly to make State Housing Authorities be more responsive. There are many well documented examples of the poor service by State Housing Authorities. But, while there is no reason why someone should be in sub standard housing, you don't need to throw the baby out with the bath water to make that point.

Keith also needs to be asking how long he will continue to receive a subsidy in the private rental market and be sure that his rent will be subsidised to an affordable level. His cost benefit analysis should contain an assessment of the risk that his rent costs will continue to contain.

The Unworkable Equation

That question of affordability in the long run brings me to the more quantifiable section of this paper in which I wish to demonstrate how we know the proposed changes won't work because the figures don't add up. Queensland Shelter and New South Wales Shelter recently commissioned micro-economic models that document current public and private rental costs from both the demand and supply sides. On top of that basic framework is the capacity to model various subsidy scenarios.[7]

In our model we can change some of the parameters but for this example:

- let's assume that we want to 'grandfather' existing public tenants.
- let's also assume that we want to raise the subsidy going to private renters; and finally
- that we want the whole thing to be cost neutral – that is it doesn't cost any more in Queensland than the cost of the Commonwealth contribution to the CSHA, the State matching contribution and the current value of Rent Assistance going to Queensland.

The big problem here is achieving the first two assumptions within the third constraint of cost neutrality.

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[7] *See* Morgan-Thomas (1997 forthcoming) for a more detailed write up of the model. Essentially the model uses data from State Housing Authorities and the Australian Housing Survey to model different subsidy scenarios.

In fact it is only cost neutral, under our model, when public rents are subsidised down to 20 per cent of income and private rents are only subsidised down to about 36 per cent of income (Queensland) or 59 per cent (New South Wales). That's not really an affordable rent in either case. If we changed the basic assumptions and assumed that we wanted public and private tenants to get the same treatment, ie the same level of subsidy, it is possible to achieve cost neutrality when public and private rents are set at 31 per cent (Queensland) and 38 per cent (New South Wales) of income.

Otherwise, the cost of achieving the stated targets of 20 per cent for existing public tenants and 25 per cent for private renters annually will cost around $200 million extra in Queensland and $760 million in New South Wales. What does this mean for public housing? If States actually agree to go down this path they will be faced with meeting these costs out of their own budgets as this arrangement has States paying the initial extra costs of providing additional Rent Assistance because they will be charged for the public housing they have been handed through years of capital funding. Money will be clawed back through the Financial Assistance Grants to the States.

State Treasuries, although they will no doubt welcome the release from Commonwealth control over housing funds, will want to recoup as much of the lost funds as possible. They will be ensuring that every last dollar is extracted from the housing portfolio, from the market rents that tenants pay. Community service obligations cost money and are likely to go out the window. One version of the future sees public housing competing with LJ Hooker if Treasury has their way.

Going back to the $200 and $760 million deficits mentioned earlier, it is useful to consider ways in which States may get these extra millions from State Housing Authorities? Certainly an incentive would be to put up the rents. In Queensland that would mean each tenant would have to pay about an extra $4,500 a year (the value of their subsidy!) if the sums are to come out cost neutral.

A second incentive could be to sell off public housing. The average value of a new public housing construction in Queensland is said to be about $100,000. To raise $200 million annually would require sales of about 2,000 units or more if the prices are lower. Of course you can only do that for so long and soon you run out of assets. Presumably a similar proportion

of stock, about 5 per cent , would go in each State. This could total sales of around 25,000 stock annually across the country.

Senator Newman is quite right when she says that her Department will not force State Governments to sell off public housing. The Commonwealth government cannot sell off public housing and probably does not have that intention. However, it is National Shelter's assessment that the incentives for State Housing Authorities will be to get out of public housing provision for all but perhaps the most disadvantaged. In all likelihood they will continue to provide housing for obviously disadvantaged groups within housing markets, people with disabilities for instance.

But, everyone else will eventually go. State Governments will quickly divest themselves of what their bean counters will see as a liability. Because they will be required to pay a return on the investment to the Commonwealth – say 4 per cent of market rent, they will quickly realise that they'll pay less money back if they have less stock.

Housing Should Be Safe, Secure, APPROPRIATE and Affordable

I briefly want to mention another problem with the models proposed as I see it. This is the problem of appropriateness, the quality of housing that will be supplied. The proposed changes place the responsibility for housing standards fairly and squarely in the lap of the State governments. Without Commonwealth standards being set, the electorate has been given the job of ensuring that State governments deliver on housing appropriateness and affordability.

Despite the fact that these same governments have had constitutional responsibility for housing, many have failed to deliver good tenancy legislation. Some have failed pretty spectacularly – Tasmania springs to mind. Tenancy legislation in Tasmania is ancient and provides almost no protection for tenants living in the modern world at all. Most States do not offer tenancy legislation for boarders and lodgers.

But without decent legislation in place and legislation that controls the amount of rent, that determines what is appropriate housing, there is no chance that States will be able to deliver on good housing outcomes. I don't see States falling over themselves to improve their residential tenancies legislation – in fact I see them running the other way.

In fact, much of the responsibility for appropriateness is likely to fall to local government – a level of government entirely without the resources to deliver on housing standards in the private rental market.

Conclusion

So what does all this mean for public housing? My assessment, sadly, is that these changes will mean the end of public housing and it will be a slow and painful death. The bones of the current public housing system will end up sheltering only a few of the most disadvantaged and marginalised individuals and even some of these will not get in.

I think I have shown that we need public housing and that it provides housing services that the private market does not match. Public housing is the preferred tenure of a large proportion of tenants, despite its failings and they appreciate what it provides for them – a home.

Yes, public housing is relatively costly if you look only at the costs incurred at year one. Rent Assistance measures may well be cheaper in year one but I urge us to keep in mind the costs down the track and to keep a long term perspective, in much the same way as public tenants have said they will. We need to consider history at this juncture and look dispassionately at the social cost of large scale sales of public housing to current and future generations of previous.

Why does public housing 'cost so much'? Well, I liked what Harry Herbert from the Uniting Church Board for Social Responsibility said recently 'because that's the cost of decent housing'– that's what it costs to provide all those things that people value. You can't provide decent housing on a shoe string and we have to consider this whenever we discuss cost neutrality and what that means.

Government differs from National Shelter on a crucial point. Whilst they see public housing as part of the problem, we see it as part of the solution. The problem is not that public housing is too expensive, but that government has not been willing to fully fund it as a solution to housing stress.

We shouldn't be aiming to bring public rental assistance down to the level of private rental assistance, we should be aiming to ensure that Australians have access to safe, secure, affordable and appropriate housing without discrimination. The costs of providing this housing should be shared fairly

within the community. That means comparing housing subsidies across the board and not shifting resources from one group of low income earners to another.

I would like to finish with a quote from Judy Yates

> When subsidies provided fall short of those required to meet the gap between market rents and affordable rents, any presumption that social housing providers or the private market will be able to or be prepared to step in to fill the gap left by reduced public housing activity must be seen to be based more on faith, hope and charity than on rational economic principles. (Yates 1996: 7)

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The End of Public Housing – Opportunities and Reforms

Adam Farrar*

Abstract

This paper presents an overview of some themes from the recent debate over the future of housing assistance in Australia. In particular, it seeks to suggest some bases for consensus implicit in the contributions to the ANU Urban Research Program seminar – 'the end of public housing?'– to which it was originally presented as a response.

It is accepted that reform of housing assistance is needed. There has been a regular process of revision to the Commonwealth State Housing Agreement over its fifty year history. However, the issues being discussed in the current reform debate are different to those that have provided the basis for previous changes. The lack of clarity over the reasons for providing housing assistance, the inability to sustain adequate levels of outputs and the residualisation of public housing have contributed to the new context of reform. The debate over housing assistance reform provides an opportunity to address a number of outstanding problems and produce a far more integrated approach to housing policy and the place of housing assistance. However, the current debate has been disappointing in that it has largely failed to look for ways to improve housing outcomes and has instead been dominated by concerns over the devolution of roles and responsibilities to the states. The direction of reform outlined in the Council of Australian Governments June 1996 Communiqué carries very specific risks of producing poorer housing outcomes.

Introduction

Debate over housing assistance in Australia is not new; nor is it likely to be finally resolved in the ways proposed in the June 1996 Council of Australian Governments (COAG) Communiqué and the more detailed attachment to that communiqué (COAG 1996). Nonetheless, a living housing policy and effective systems of assistance must adapt to meet new circumstances. If this is agreed; and it is accepted that we will inevitably see

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* Adam Farrar is Director of the National Community Housing Forum

significant changes both to the arrangements between the Commonwealth and the states (expressed in the Commonwealth State Housing Agreement (CSHA)) and to the provision and management of social housing by the states, then it becomes vitally important to open up a serious debate on the objectives and policies that should inform any models of reform. Inevitably this will be a process of both vigorous critique and, if it is to succeed, openness to new ideas. This will provide an opportunity to, not only tackle some of the immediate problems with the current CSHA, but also to develop a far more integrated approach to housing policy and delivery. Equally inevitably, it runs the risk of being far too constrained by other political agendas. This paper seeks to identify, in a preliminary way, the risks and opportunities which are emerging from the debate so far.

A Background to Reform

The CSHA has been reformed (or reshaped) a number of times in its fifty year history. Perhaps the rationales for the changes which have resulted could be broadly grouped under four themes (most have re-emerged throughout the history of the CSHA in different forms). These are:

- the place of public housing in broader economic, urban or social policy;
- the relationship of public housing policy to home ownership policies;
- who public housing is intended to assist;
- how public housing is financed.

Public housing has been used to overcome national housing shortages, to meet the housing needs of emerging industries, to lead new urban developments and regenerate urban 'slums'. It has been seen as a form of tenure that could deliver the benefits of home ownership without requiring individual investment or allowing individuals to trade in the assets, as a transition to home ownership, and as a competing policy objective to home purchase assistance. It has been aimed at moderate income working families and at social security beneficiaries. It has been financed largely through public borrowings and solely through public investment (capital grants). It has been conceived of as self-financing and as a highly subsidised tenure.

What is striking about the current housing assistance reform debate is that few of the issues which previously shaped changes to the CSHA are much in evidence. The target population is significant to the current debate, as is the nature of the subsidies provided. But the only broader policy objective being considered (in passing) is household mobility. The only, implicit, discussion of the relationship of social housing to other tenures is concerned with predicting the residual demand arising from private rental market failure. And any consideration of how housing will be financed is conspicuously missing. In their place we have new debates over devolution of policy, planning and accountability for effective housing management to the states, and on affordability in the private rental market. It may be helpful to ask why these reforms are so different before considering the current need for reform and critically assessing the current reform agenda.

Not surprisingly, the array of evolving and interlocking objectives described above, has made it difficult to be clear at any particular time about the housing policy position which has informed funding, development or management decisions. This observation led the Industry Commission (1993) to argue that there were too many conflicting objectives in the CSHA. It has also meant that over recent times governments could largely relegate social housing to a policy backwater. Except for the first flushes of the Whitlam and the Hawke governments, this allowed funding to decline steadily in real terms. Instead of maintaining support, most effort has gone to ensuring that what CSHA funding there was stretched as far as possible. It was this that led to the 1989 revision of the agreement which sought to ensure that available funds were used to maintain a modest supply of stock rather than being eaten up by debt; and, under the Keating Government, to ensure that the real value of CSHA funds was maintained by tightening state matching requirements to compensate for the declining real value of Commonwealth contributions. Ultimately these could only be holding measures. Once again the ability to provide sufficient additional housing from the available funds has been undercut, this time by the pressing need to make up for earlier poor construction, poor maintenance, and inappropriate estate development. As a result the use of grant funds has been diverted from new construction, into restoring the value of existing assets.

This lack of well understood and agreed social housing policy combined with the short term declining capacity to deliver, has opened social housing to other policy agendas – reducing public expenditures, 'marketisation', and devolution of responsibilities to the states.

While a loss of political clarity [1] about housing policy objectives has been one reason that the CSHA is in a financing dead end, this has been exacerbated by a policy direction that has emerged, at least partly, by default. This is the increasing residualisation of public housing. Today, the majority of public housing tenants (84 per cent (COAG 1996)) are on statutory incomes. Housing estates which were largely designed as ordinary urban estates for working families, have proved quite inappropriate for those outside the workforce – particularly those who depend on access to other social infrastructure. The financing of social housing has been undermined by the significantly lower incomes of tenants and hence rents paid. The management and planning task has become far more challenging than was originally envisaged.

As a generalisation, there have been two reasons for this residualisation of public housing. The first is the 'rediscovery' of poverty in post-war Australia by the Henderson Poverty Inquiry in the early 1970s (Henderson, 1975), and in particular, housing related poverty. Since the introduction of the welfare state after the war, poverty had largely been assumed to have been overcome. What was particularly significant about Henderson's observations was that the groups of hidden poor – sole parents, older people, singles – were conspicuously missing from the target groups for public housing (or the other main form of housing assistance, home purchase assistance).

One of Henderson's solutions was to call for the establishment of a new form of housing provider to meet the needs of these groups – housing associations modelled on European approaches. However, after two decades, community managed housing is still only a small (although growing) sector of social housing. Instead, public housing eligibility was increasingly opened to the new tenant groups such as older people, singles and most recently, people with disabilities. In effect, public housing was redeployed as a response to a newly discovered form of housing need.

At the same time housing related poverty increased as the proportion of households in the general population primarily dependent on social security

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[1] The lack of political clarity was paralleled by a lack of clarity in state housing authorities whose practices were dominated by the organisational culture of the post-war development agencies they had once been, with little understanding of core functions such as tenancy management or planning (Mant, 1993)

payments increased from 10.4 per cent in 1971 to 25.6 per cent in 1991. (Freeland 1993). This shift is partly a response to deepening structural unemployment, changing household composition and changing life-cycle patterns of attachment to the workforce (ACOSS 1996a). Age dependency ratios (the ratio between the number of people not of workforce age and those that are) have also begun to return the to the higher levels that obtained before the baby boom generation increased the proportion in paid work (Young, 1994). These developments went hand in hand with declining affordability of home purchase and declining affordability in some capital city rental markets (NHS, 1991a & DSS, 1996).

It is legitimate to ask whether public housing was the right policy instrument to respond to this new form of housing need. Public housing had been successful at providing housing for moderate income middle Australia. Despite some failures, it had been quite good at developing products not being provided by private developers and has the potential to continue to innovate with reverse mortgages, shared equity and the like. Given clearer objectives and far more intelligent asset management, it could have played a more significant role as a public alternative developer of new urban estates and, as a result, might have been more effective at moderating prices across the market; thereby limiting some of the problems it is now called on to respond to. It has had some success in this area. Without this supply of rental stock that was not simply short term and second hand, the operations of housing markets may have been even less efficient than they currently are.

On the other hand, the housing needs of very low income households and households with specific life cycle needs require very different responses. This is a different business for which the existing public housing resources – existing estates, land banks and management systems – have been generally inappropriate. What is striking is not the difficulties experienced by state housing authorities, but rather the failure of policy makers to squarely ask how we best respond to this need. The development by the Commonwealth of special purpose tied programs – Aboriginal, aged, crisis and community managed – within the CSHA was a partial response. Some of these tied programs followed innovation by states – illustrating the dynamic ability of Commonwealth State agreements to build on and spread innovation. Rent Assistance provided to social security recipients was made more effective and has grown dramatically to $1,500 million a year. But these have been fragmented responses.

These dilemmas mean that it is time to step back and clarify the directions for social housing policy. I say directions because, while the Industry Commission was right that the objectives stated in the CSHA are various, it was wrong to say that housing policy should be restricted to any single objective. Where there are legitimately distinct housing objectives, each will need distinct instruments to achieve them; but at the same time their inter-relationships also need to be understood and managed through the agreement.

Challenges and Opportunities of the Reform Debate

Challenges

As well as these underlying confusions, there are a number of specific current problems which any reform of housing assistance must solve. These are the challenges which should be exercising reformers. Their solutions may then suggest some of the opportunities presented by the current reform climate to develop more effective housing policy approaches.

The demands on rental housing markets – including social housing – must be reassessed in the light of the changing composition of private renters and the declining proportion of home purchasers. One failure of the 1991–1993 National Housing Strategy (NHS) – which, despite its limited policy take-up, *was* an attempt to provide an integrated housing strategy – was that it focused primarily on affordability in the private rental market and less on the demands that might be placed on it and its ability to respond. However, Issues Paper No 1, which modelled overall housing demand and supply scenarios, noted:

> ...a key issue to be confronted is the role that governments want the private rental sector to play. To date governments have generally regarded private rental as a transitional and temporary tenure from which households move into home purchase or public rental. However, the analysis presented...suggests that on average, periods of rental are likely to be extended, particularly for households with one income. (NHS 1991b:90)

This prediction has since been confirmed by the Australian Housing and Urban Research Institute (Wolf 1996). Of the range of policy questions raised by the NHS which flow from seriously considering the role the

private rental market should and could play, only the option of increasing housing assistance going to the private market has been entertained.

Although the CSHA, which is not limited to an agreement on social housing, provided an opportunity to develop a tenure neutral approach to housing policy, this has not eventuated and the various components of the CSHA which relate to different tenures have not been integrated. Social housing policies have largely been considered in isolation. There has been a general neglect of policies designed to affect the operation of the private market. There has certainly been no explicit recognition that social housing and private rental policies might be complementary. There has been almost no integration of demand and supply policies. It is not clear that the proposed COAG response to this, which is to abandon supply policies altogether, will assist the effective operation of that market.

A major challenge which is emerging in designing responses to housing needs and, particularly, housing pathways, is to balance needs which we have so far treated as contradictory – the need for security and the need for flexibility. There are two reasons for this. The first is the increasing diversity and fluidity of patterns of household formation over the past 20 years. The second is the more fluid patterns of attachment to the labour market across the life course. In these circumstances, certainty about housing options is more important than ever, at the same time as prolonged tenure in a given dwelling is becoming less likely. As in discussions of industrial relations, the question is in whose interests 'flexibility' is to operate.

While there may be debate about measurement (Landt & Bray 1995) there are very high numbers of households living in poverty after meeting their housing costs. Modelling by Landt & Bray suggest that in 1995, 259,888 income units (more than half a million individuals) were in after-housing poverty in the private rental market. Current rental subsidies are widely recognised as inadequate. There is a clear imperative to increase the level of Rent Assistance; although a further challenge may be to ensure that this does not flow on into increased rents (Ecumenical Housing 1997:22).

The current Rent Assistance system for those on the private rental market is very poorly structured and does not reflect the relative housing costs of different households, the quantum of housing costs, the contribution of housing costs to poverty or the after housing poverty of households not in receipt of social security payments.

There is no systematic approach to the housing needs of the working poor who do not have children. The diversity of products needed for such households, and the most appropriate style of management, has been responded to in an *ad hoc* manner at best; with the main attention being directed to housing crisis, rather than ensuring a supply of appropriate options which would reduce the level of housing crisis.

State housing authorities have found it difficult to reposition themselves effectively in the face of the changing expectations of them. Despite a number of brief periods of rapid change, SHAs remained monolithic and unresponsive for most of the past twenty years. Originally COAG's consideration of public housing was intended to progress responses to the barriers to the effective operation of state housing authorities identified by the Industry Commission. While this has been entirely dropped from the current proposals (since it becomes solely a matter for each state), it remains a central issue to effective housing reform.

The way that state housing authorities have operated to date has provided very few signals or incentives which would encourage effective tenant focused management, effective planning, or long term asset management. One result is the redevelopment crisis facing many states.

At the same time the funding basis has been entirely arbitrary (or politically driven). On one hand, while stock has increased by 40 per cent over the past 20 years, this has barely kept up with population growth, despite the identification of increasing housing need. Equally irrational, funding remains on a per capita basis; despite the fact that housing need is related to factors such as the cost of housing, levels of unemployment and the availability of various options, and not simply the size of the population.

Opportunities

If nothing else, the current housing reform debate ought to be an opportunity to expand the scope of housing policy approaches. In effect, it could be the chance to consider a more holistic approach. There are a number of ways that this could be achieved.

The reforms could create a framework to develop a more integrated approach to rental markets. The changing pattern of housing histories suggests that rental housing markets should be the focus of housing assistance policy. However, this must include an appreciation of the extent to which rental housing relies on housing constructed for owner occupation

as a component of overall supply, and barriers to owner occupation as a factor in demand. More important, perhaps, it should recognise the potential for far greater integration between different providers and managers in rental markets. We now have an opportunity for social housing to be developed with the aim of making rental markets more robust and responsive, rather than being seen as a provider of last resort. This will also mean seeding greater diversity of investment and management models. In both North America and Europe, non-profit developers, working with private financiers and investors and social housing managers have dominated the construction of rental housing (Lawson 1995, Hill 1996).

The reforms could open the way for a national set of objectives and standards for rental housing. Part of this would include national objectives for private rental housing. This would require a very clear approach to the kind of investment needed to meet these objectives. Perhaps the most important outcome would be a clear policy on the appropriate mix between public investment, private retail investment and private institutional investment, if we are to achieve a stable and balanced rental market. This, in turn, would require serious consideration of the targeting of incentives for investment.

Almost all commentators have seen the tax regime which applies to residential housing investment as irrational and counter-productive. The incentives for over-investment in home ownership, the relative ineffectiveness of incentives for retail investors (negative gearing in particular) and the complete lack of incentives for major institutional investors to invest in residential housing compared to other infrastructure investments of a similar scale, can only be tackled if a national framework of policy objectives is in place.

A genuine consideration of reform options would also provide an opportunity to consider housing development in the context of wider urban form strategies. Such strategies could go beyond the urban consolidation objective which has dominated planning and consider more explicitly the balances of all locational costs and impacts.

Finally, the reform process provides an opportunity to negotiate a model form of Commonwealth: state agreement. This would be one which provides a balance between the legitimate need of governments to be able to deploy flexible strategies to meet housing outcomes, and the need to very clearly identify such outcomes, plan how best to achieve them and monitor

their progress. These elements were all *already* present in the Interim CSHA, although they are yet to be achieved in other areas of COAG negotiation. But we might also move beyond this. The opportunity exists to do far better than merely divide up functions between jurisdictions on an all-or-nothing basis. Instead we might build on an approach which has had some success in the negotiation of national infrastructure agreements and national competition policy. This would involve going beyond the crude funder : provider relationship which underpins most Commonwealth state agreements. Instead, two additional elements could be added to the outcome focused agreements described above. These are the establishment of nationally agreed objectives, and clear indications of the contributions to achieving these that are required from *each* sphere of government. For the first time this would involve Commonwealth commitments to utilise policy levers such as taxation and social security to enable and *complement* investment, development, planning and management strategies deployed by states and local government.

Disappointments and Risks of the Current Reform Process

Disappointments

Despite these opportunities, the approach taken both in developing the model initially considered by COAG, and in debating the reforms more widely, has been disappointing. This is particularly because it has largely been captured by agendas other than good housing outcomes.

The first of these is, of course, the debate over roles and responsibilities of the Commonwealth and the states. To be quite clear at the outset, this debate has *not* been about identifying the most effective and efficient contributions of each sphere of government to achieving housing outcomes. A number of commentators have critically examined the stated objectives of the current COAG review of roles and responsibilities in service delivery (Farrar 1996; ACOSS et al 1996b). There are perhaps three sets of interests which underpin these negotiations. The Commonwealth's primary concern has been to reduce costs and eliminate cost shifting, while the states have sought to achieve complete discretion over the expenditure of funds, and where possible over the raising and distribution of the revenue itself. The third, less explicit interest at play is to further the reform of governance taking place in Australia and internationally. This approach has been most

clearly advocated in the influential US book *Reinventing Government – how the entrepreneurial spirit is transforming the public sector* (Osborne & Gaebler 1993) and as Considine has recently argued, one of its key features can best be described as 'marketisation'. (Considine 1996). From this perspective, it is striking how a set of reforms which are nominally concerned with clarifying the respective roles of the Commonwealth (income support) and the states (ensuring housing delivery) directly results in the transfer of all available funds from public supply to private market supply.

A number of states have been firm critics of aspects of the options being considered by COAG. However the reasons for this illustrate the conflation of housing priorities and the states' financial agendas. On the one hand, we have arguments apparently to do with the most effective housing outcomes. The Victorian Premier has argued that in the case of 'welfare housing' the private market cannot be relied on and that funding should be maintained for public supply. The Queensland Minister for Housing has argued that at least some forms of supply, such as community housing, should be excluded from the proposed reform. On the other hand, other fiscal agendas are very quickly discovered below the surface. At the same time, the Victorian Premier has argued that housing funds should be 'broadbanded' even further to give state Treasuries the greatest possible discretion. The Queensland Minister, in turn, has opposed any changes to rent assistance which reallocate current CSHA funds on the basis of need rather than the present per capita basis. These examples of fiscal self-interest in fact undercut appropriate housing outcomes.

Equally disappointing has been what might be described, less as a failure of vision than as a confused vision by those public servants most closely involved in the design of the COAG reform options. Understandably, the significance of designing and carrying through one of the largest restructuring of roles and forms of expenditure in the past twenty years, since the transfer of responsibilities for higher education funding from the states to the Commonwealth, has been clearly recognised by the responsible officials. What might be seen as disappointing is that the challenge of reforming the public administration of certain housing *programs* seems to have obscured the rather more significant challenge of creating a more effective housing *system*.

One of the fundamental disappointments in the whole debate is the failure to acknowledge that we spend too little as a nation on responses to housing

need. This is a comment about both Commonwealth funding and state matching for capital grants which combined have stayed at the current real levels for some years, despite growing demand. And despite the consequent steady growth in the cost of Rent Assistance for private renters, levels of assistance here remain inadequate. While the impact of fiscal restraint is not unique to housing, the refusal to consider widening the raft of potential measures is a special problem. Reform of the tax regime affecting housing – both to remove inequitable and inefficient tax expenditures on housing and to introduce others which are more effective – has been resisted for far too long. Equally we might look to new taxes, including measures such as development levies.

Finally, the initial responses by advocates of a public supply of social housing also tended to ignore the opportunity and imperative for reform. While this is an understandable response to the specific model of fundamental reform proposed by COAG, a maintenance of the status quo, even if it were possible, would ignore the need to identify better responses to the distinct needs of vulnerable households; to deploy public housing far more actively within rental markets; to improve the operation of an extremely ineffective private rental market and to establish proper benchmarks of affordability and adequacy for assistance to those who must rent on the private market.

Risks

The risks of the current reform process are largely the risks inherent in the broad brush model outlined in Attachment A to the COAG communiqué.[2] But equally, there is a very serious risk that the failure of these specific reforms will be taken as a reason to implement cost cutting or broadbanding which has even less regard to housing outcomes. In October 1996, the Victorian Government wrote to the Housing Reform Taskforce to propose an alternative model of reform which replaced the CSHA with an Identified Funding Grant in which Commonwealth grants would be broadbanded against 'some broad outcome measures', matching requirements would be abolished, and all restrictions on the forms of expenditure would be

[2] These have been spelled out by a number of commentators, and are covered in the other papers presented at this symposium (Urban Research Program, 1996). Some of the major concerns are summarised below.

removed (Victoria 1996). The proposal went on to describe how the State might use this greater flexibility to meet housing need. It would:

- increase rents,
- reduce choice of location,
- increase targeting to crisis and special needs,
- change security of tenure,
- change eligibility criteria.

This list suggests a return to the worst kinds of residualisation which have been tried and failed in states such as NSW in the late 1980s and the principle of least eligibility; which asserts that public tenants have a right to only those services which would be accepted by the most desperate. This apparent abandonment of the goal of improving the responsiveness of housing management, which was the aim of the Mant Inquiry's reforms to public housing in NSW and the Industry Commission Inquiry, shows the potential for the reforms to go entirely off the rails.

At the same time, it is clear the that exemption of housing assistance from the substantial expenditure cuts in the 1996 Federal Budget will be very hard to maintain unless they are locked into an agreed Commonwealth and state agenda – such as COAG.

But, by the same token, the reforms proposed in the COAG communiqué attachment also present serious risks. The proponents of the reform directions outlined in the COAG communiquÈ must be prepared to expose these risks to critique and rigorous assessment or that reform direction will also fail.

The design of any successful rental subsidy model must meet a number of criteria (and on the publicly available information it seems likely that the proposed model will not meet these). First, it must reflect an income adequacy benchmark of after housings costs, rather than a housing costs benchmark which is an arbitrary proportion of income. (King 1996) Second, it must avoid applying a double income test for social security recipients since this will create serious poverty traps. To avoid this, the current Rent Assistance payment does not reduce while any social security payment is received. Third, it must not simply be restricted to social security recipients, but must also be available to low income working

households, or those who receive other forms of income support. To make housing affordability dependent on access to a specific form of income distribution is clearly ineffective. At the same time, it must be acknowledged that this will present significant problems designing eligibility criteria – particularly related to self-employed people whose stated income is most likely to be artificially reduced.

The other areas of risk associated with rental subsidy models are their costs. There is, of course, endless scope to debate the applicability of international experiences of differently designed rental subsidy systems. It is argued that a mix of ceilings and co-payments will ensure that the risk of blow-out will be contained in Australia in ways that it has not been in, for example, the United Kingdom. However, as is noted below, this ceiling on rental subsidies is likely to produce perverse locational outcomes. But the main cost risks are not related to such design issues. Instead they relate to both demand and general market prices. If subsidy ceilings are based on measures such as median rents, they will rise with overall house prices – including those which flow through from other markets, from land and infrastructure pricing policies quite outside the control of the Commonwealth, from interest rate policies, or from speculative price booms. Rather than housing subsidy policy being able to ameliorate these, as current capital subsidies may do, rental subsidies are highly vulnerable. Moreover, at least in some geographical or other sub-markets, changed patterns of demand seems likely to affect price – and unlike other periods of changes to the level of Rent Assistance, the current reforms are intended to change the patterns of demand.

More fundamentally, like all forms of income support, rental subsidies are vulnerable to increased demand related to economic cycles. Beyond this, it is vital to recognise that the long-term trend is to increased reliance on income support. This flows from the continual ratcheting up of unemployment levels since the 1970s, the increased age dependency ratio, the increased incidence of relationship breakdown and the formation of new households, and from income and regional polarisation in our society. The question is whether rental subsidies are more or less responsive to these demands than a capital subsidy. In the first instance they probably are. However, in the medium term it would be easier to restrict eligibility for, and levels of, income support than it would be to change the criteria for access to social housing. In the longer term, the US experience suggests a far greater risk. Access to rental subsidies can be (and is) rationed through

a wait turn system in precisely the same way that access to public housing is. But if this happens in Australia, we will have lost the safety net which currently exists when we provide assistance through a mix of public housing stock and a rent assistance safety net. Even more important, we will have placed very great pressure on the current basis of our social security system which is available as a right to all eligible citizens.

The introduction of a ceiling on rental subsidies – if it genuinely acts to contain costs – will also constrain locational choice in a far more arbitrary way than currently occurs with access to public housing. Unless medians are struck at very localised levels – something which is not seriously on the agenda – then all locational costs will be transferred to the tenant, rather than being shared across the social housing system through effective planning. It might plausibly be argued that it is more allocatively efficient for consumers to make trade-offs between locational amenity and price, if we were not talking about households whose only trade-off is their degree of after housing poverty. The extension of rental subsidies based on median rents to public tenants will inevitably lead to the reconfiguration of public housing assets, and so eliminate the only safety valve for those low income private renters who are currently forced to accept poverty in order to access housing in the locations they need. Early studies of the New Zealand experience suggest that the risk of spatial polarisation is being realised (URP 1996).

For current social housing managers the proposed model, if it works as is intended, runs a strong risk of becoming unmanageable. If only those tenants with the least capacity to manage on the private market are housed in public housing, the management task will become very much harder. Those who experience discrimination in the private market are also often be discriminated against in other ways, such as in employment or education. Turnover is likely to drop, thus increasing asset management bottlenecks. Tenancy management will become far more intensive. The need for support services will dramatically increase. As it is, this would increase management costs – even if the management *skills* required currently existed. But such management will require greater training, far smaller management units (at the cost of economies of scale) and will carry increased maintenance and modification costs. At the same time, tenants will be those with the least capacity to pay.

Without any further capital, the capacity to develop greater diversity of responsive housing management through non-government housing managers

with a range of products, is put at serious risk. The only option will be to explicitly transfer assets from the public sector to alternative providers, since even at market rents, the returns are too low to allow for off-budget financing. There are three different risks in depending on stock transfers. The first is that the assets redirected to alternative providers will not replace the number of units lost. This is because assets diverted in this way will be the assets least useful to the public provider because of their current condition or amenity. This is the least efficient path to growth. The second risk is that public managers, faced with no additional investment will be far less willing to cooperate with alternative providers. Finally, there is a strong risk that some states will simply be reluctant to make the extra effort to grow alternative providers given the increased pressure on the existing public provider.

But the greatest overall risk is that of reduced rental housing supply. This would follow on at least two scenarios – the failure of the private market to increase investment in rental housing at or below median prices; or the failure of the market to respond effectively to the form of housing demand.

It has recently been observed that the share of private rental housing has remained constant for the past 20 years (DSS 1996). It has been suggested that this reflects the responsiveness of private rental investment to overall demand flowing from population growth. Unfortunately this is not the only explanation. If, as is widely acknowledged, the private rental market is a second hand, short term or accidental market, then levels of investment will be a by-product of investment in home ownership rather than a direct response to demand for private rental. We may, however, see a significant increase in proportional demand for private rental. This increased demand would arise partly because of increased affordability through the subsidy, partly because of the increased undesirability of an unmanageable public housing alternative and partly because the supply of public housing stock will be reduced with the redevelopment of existing poor quality stock and the sale of public stock into the owner occupier market. There is no evidence to suggest that investors in private rental will respond sufficiently to such a change. Certainly, on the returns available, commercial investment would be unlikely unless rents are substantially increased.

The other risk is that the private market will not respond effectively to the *kind* of demand expressed. It is often assumed that the only benefit being sought by renters is price – affordability – and that this will be

provided by increased rental subsidies. But as Eleri Morgan-Thomas has argued (URP 1997), tenants demand security, appropriate location and a basic standard of amenity as well as affordability. Increasingly, they also demand more flexible rental housing products which reflect changing life cycle needs and diverse household types. There is a *prima facie* risk that an accidental private rental market will be poor at efficiently delivering these. There is some irony in the fact that just as public housing has begun to address the huge problems of poor location, maintenance and amenity which is the legacy of under-investment and poor management, reforms should be proposed which increase the risk of such outcomes for tenants.

But even with the most optimistic view of the responsiveness of the private rental market, it is accepted that there will be market failure relating to discrimination or special housing need. Social housing will remain necessary to meet this need. However, not only will stock dwindle with sales and redevelopment, but with population growth, existing stock will provide a constantly declining share of all rental housing. There is therefore a very high risk that at some point the protections against such market failure provided by existing public housing stock will be inadequate. It is, therefore, striking that there is no mention of an ongoing need for public investment in housing in the COAG model. Without any provision for this, states will be forced either to divert funds away from other services for as long as it takes to recover the investment through the return on the asset, or they will have to borrow. Some states may do this. But without a national framework, the result will inevitably be varied and the right of all Australian citizens to a basic level of housing security will be further eroded.

This then leads to the final risk which arises from the loss of any robust Commonwealth: State agreement. The previous agreement clearly needed to be made more effective. The current interim agreement has provided the basis for a far more effective agreement – even though it has been fatally undercut by the failure to provide a medium term funding offer. But without an effective mechanism for developing national housing objectives and national housing information we run two risks. The first is that we will see a deepening of the current unevenness of housing security, accessibility and affordability between states. The second is that the Commonwealth will lack the means or information to deploy the policy instruments it has responsibility for – tax, social, security and economic policy – with any clear understanding of the impact on housing outcomes in Australia, or any

understanding of the impact of housing conditions on economic, labour market or social objectives.

Avoiding the Risks

A consensus seems to be emerging. This is that the reform process must avoid throwing the baby out with the bath water. That is, we must retain a supply side to national housing policy while seeking to improve affordability (Ecumenical Housing, 1997).

The ability to make a rental subsidy work effectively in the private rental market means having the supply instruments to fine tune that market. It means being able to ensure that there is a supply of affordable housing in high price locations while maintaining a ceiling on rental subsidies to reduce the risk of cost blow-out. It means having the capacity to seed alternative providers capable of responding to the varied needs of low income households. It means maintaining a public response to market failure which can keep pace with population. It means taking a far more strategic view of the wider range of policy instruments necessary to sustain effective private investment in rental housing – ranging from Commonwealth tax treatment to local government planning bonuses.

All of this amounts to a reform package which ensures that social housing can continue to grow – although this could give greater attention to the upgrading and reconfiguration of existing public housing stock and the diversification of social housing responses and providers. At the same time it should improve income support to meet after-housing adequacy benchmarks. But to meet these we also need to improve the overall supply of appropriate rental housing, and this means improving the supply of appropriate rental housing, which in turn means changing the nature of that market.

We must ensure that the reform package is not only balanced, but begins to take a more holistic approach to the place of housing assistance in urban development, in economic and employment policy, in tax, and social security policy.

If we are to avoid the risks inherent in the COAG reform model, we must be prepared to engage in serious critical debate, including a willingness to learn from overseas experiences. Just as important, we must ensure that the debate is sufficiently public to ensure that it is a debate about housing

objectives rather than becoming tied up in the states' agendas of devolution of powers or Treasury's expenditure targets.

But most of all we must ensure that the debate does take place and that effective housing reform continues to be progressed. If this has to wait for the housing reform taskforce, or for COAG itself, then the imperative may be lost and housing assistance will slide, not back to the status quo, but into a morass of delay and neglect from which it will be virtually impossible to drag it.

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